THE BUSINESS QUARTERLY

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NUMBER 2

SUMMER
1954

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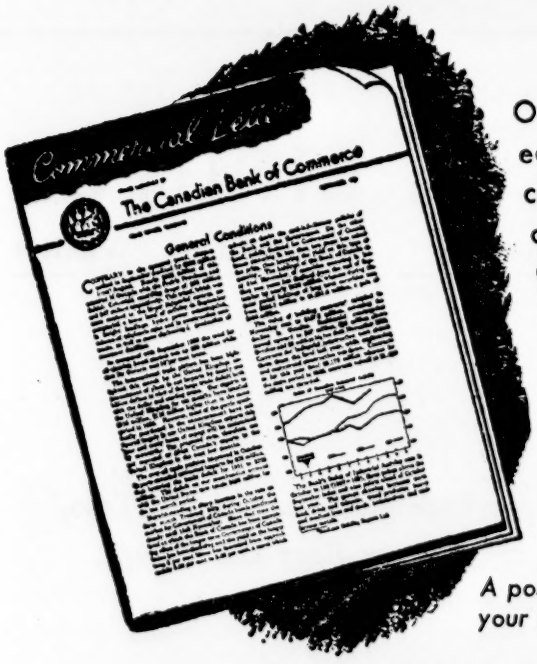

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Editorial . . .

"We have too much Government—but, thank goodness, not as much as we pay for", quoted Hon. R. D. Turner, Manitoba Minister of Commerce and Finance, at a recent FBI meeting. Some readers may feel that this issue of *The Business Quarterly* has too much Government too, but at least it attempts to show for what we are all paying. According to the article by Canada's largest employer, the Civil Service Commission, no one can accuse the Commission of paying extravagantly in its attempt to attract the best brains of the country into its fantastically comprehensive employment possibilities.

Certainly that "inner satisfaction in Government work" enabled the Commission to entice Nik Cavell from over $30,000 a year with a salary of only $12,000. But, although now in Government employment, Nik Cavell remains essentially a businessman. He runs his operation of spending $25,000,000 a year on aid and technical assistance to the hard-pressed countries of South East Asia from a small modest office with a staff of only thirty. United Nations organizations in the same business would do well to take note and copy Nik Cavell's business-like methods and learn, too, a little of his philosophy. "There seems to come a time in some men's lives" he says, "when they get the urge to do something for somebody else. I never thought it would happen to me. It did."

As if federal spending were not enough, five of Canada's ten provinces have imposed sales taxes to meet their rapidly growing expenses. These differ in administration and in method, not only from each other but also from standard U.S. practice. Professor Due guides businessmen contemplating sales or production in these provinces around some of the additional intricacies involved.

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About Our Authors . . .

R. G. Nik Cavell, director of Canada's contribution to the Colombo Plan, spends eight months of each year in Ottawa running the International Economic and Technical Co-operation Division of the Department of Trade and Commerce and four months in the East checking needs and the possibilities of satisfying them. To do this he has been voted $25,000,000 by Parliament. His training for this exacting job has been far different from being minister in the church as his father intended.

From being boss of two Ontario electronics companies, he now serves two bosses, Lester Pearson of External Affairs and Douglas Howe of Trade and Commerce, both of whom asked him to leave business to enter Canadian Government service.

Donald W. Buchanan studied at the University of Toronto, where he obtained his B.A., and at Oxford University in England. Now Secretary of the National Industrial Design Council and an honorary member of the Association of Canadian Industrial Designers, he was formerly Chief of the Display Division, National Film Board of Canada and founded the Industrial Design Division, National Gallery of Canada, in 1947.

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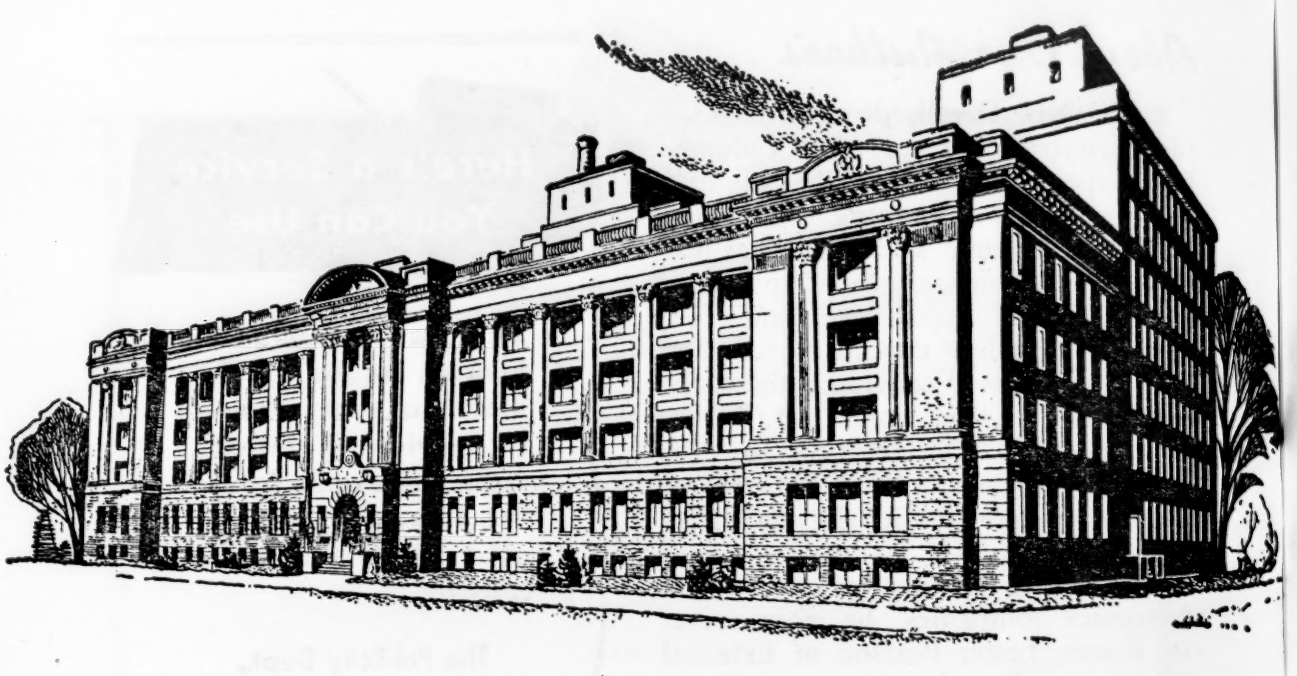

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Asia and Canadian Business

Nik Cavell

THE business world cannot but be deeply concerned about the present dangerous, complex, and frustrating international situation which bedevils the lives of us all today. Above all other human enterprise, business requires an equitable political climate if it is really to expand and flourish. Such a climate is sadly lacking today and nowhere more so than in Asia.

The aftermath of war was terrible enough in Europe, but it was even more devastating in Asia, where it resulted in changes which created political vacua which the Communists are trying desperately to fill.

Hundreds of millions of people in Asia have demanded, and obtained, full political freedom, have set up governments which are free and sovereign, and which today have problems, the like of which are unknown elsewhere and which put crushing burdens on their leaders.

The partition of the old India into two new entities — India and Pakistan — for instance created a crop of problems of a complexity to tax the wisdom of a number of Solomons. Roughly fourteen million people moved, Hindus south into India, Moslems north into Pakistan; it was one of the greatest migrations in history. This movement of people has created great hardships, a vast army of refugees in both countries, complex problems concerning their property left behind, and problems of resettlement in countries already strained to the limit to provide for their people.

In addition to all their local problems, these new governments in Asia share with us all the international difficulties of our time, exchange problems, trade problems, and the difficulties of making progress and bringing about stability in a world divided against itself as ours is.

The Battle for Freedom

The vast business of the Western world has been built on individual freedom of action within a framework of law. At least one of the factors in its success — particularly on the North American continent — has been the freedom of business units to make their own decisions and to act upon them quickly and efficiently without too many hampering restrictions. If the managements of such business units can make right

decisions a sufficient number of times, their businesses will probably prosper, and if enough of its businesses prosper, then a country and its people can enjoy prosperity. Today there is really nothing to prevent more countries from becoming prosperous with a consequent general rise in the living standards of the whole world except the terrible international situation which results in this cold war between freedom and tyranny. Already it has erupted into shooting wars in Asia in which the West has had to become involved to prevent yet more aggression, and throughout the world there is fear that unless some solution can be found, World War III will engulf us with all its horrors.

World Wars I and II created utter confusion, disrupted well established trading routes, and destroyed many people, homes, property, and the sense of security. The contestants in those wars are now falling slowly into their respective places in a new and terrifying world in which two great powers, Russia and the United States, have emerged as the leading protagonists of diametrically opposed systems of government.

Human freedom is at stake and the struggle is not a new one. History from earliest times until now is one long record of the struggle of man for freedom and the establishment of a rule of law which would recognize and protect his rights as an individual against dictatorial individuals, governments, and many other aggregations of power. The fight still goes on, but in the past, those who sought — and all too often succeeded — in depriving men of their freedom operated in relatively small areas, whereas, today the fight is on a world-wide basis and no nation can escape its outcome by hiding its head in the sand and pretending not to see its consequences. Lurking behind this situation in all their frightening aspects, are the terrible weapons of modern war. In terms of human freedom, they mean that if we lose the fight we lose it for a very long time, perhaps forever. Today, force established over the world could become absolute.

In this fight for the rights of individual man, we must take seriously into consideration another new and terrible weapon. The indoctrination of men's minds, based on the latest discoveries of psychological and pharmaceutical research, has been shown capable of reducing strong-willed men to mere puppets, to horrible empty shadows of their real selves. Modern means of communication, such as radio and television, can and do, pervert whole masses of people and prostitute truth on a mass scale. These are the new weapons of the modern totalitarians, weapons which could deal freedom a death blow and which already have done much to cripple it in many parts of the world, weapons which could deal freedom a death blow and which already have done much to cripple it in many parts of the world, weapons which spread fear and

insecurity and produce a populace incapable of resistance. This then is our world in which we must conduct our business, in which free men face perhaps the greatest crisis in their history.

Steps to Defend Freedom at Home and Abroad

The question we must ask ourselves is: What are we doing about it? Obviously, there is nothing much those already in the grip of totalitarian power can do, but what are we, who are still free, doing to protect, maintain and expand what remains of the free world and, incidentally, of the free market?

Our first necessity is to be prepared against sudden attack, to be in a defensive position which is so strong that the enemies of freedom will be compelled to ponder carefully the costs to themselves and their already enslaved satellites of any attack on the remainder of the free world. This endeavour has brought into being the North Atlantic Treaty, now five years old. N.A.T.O. — as we all know it now — has been the means of bringing into being in Europe an integrated defence force under a Supreme Commander. It has done much to prevent further aggression in Europe and to reduce that international tension which for so long precluded hope of any stability in world markets or increase in world trade. But this treaty has done much more than that: it has brought into being an organization in Paris which provides an opportunity for cooperation in many different fields far removed from that of defence. It could well prove to be the beginning of habits of cooperation within the Atlantic Community which would lead to a network of such regional security arrangements, as a supplement to the United Nations, as could eventually give us a world free from the constant threat of war; a world in which the huge sums now necessary for our defence could safely be expended on the rehabilitation of millions of human beings who now live in semi-starvation and misery; a world in which the inventive genius of man could be devoted entirely to human betterment and our huge productive capacity be put to constructive and not destructive ends.

It is well that we keep in mind the part played in Europe by the Marshall Plan which history will one day record as a great and far-seeing act on the part of the United States in the cause of a free Europe. It gave hope where none existed; it enabled factories to open again; it provided employment and slowly led the way from the devastation of war to the constructive rehabilitation of European business, a process which is still going on and which is re-establishing the European market; by demonstrating the concern of the free world for those who had lost hope, it halted the drift of Europe towards Communism.

So far so good, even if not yet good enough; but what of Asia? What of the majority of the human race which happens to be brown instead of white? Well, it can be said that we have made a beginning. We realize that a safe, free world is only possible if the Asian countries help to build it. When China, with its five hundred million people adopted Communism, or had it imposed upon them, a serious blow was struck against the cause of human freedom. In other parts of Asia the drift of the hopeless towards Communism is all too evident. As Confucius once said: "An empty stomach does not dwell on high principles" — and there are millions of empty stomachs. This must obviously be so in an area where the average per capita income is around $50 per year, where the calorie content of the daily diet is barely above starvation level, with a resulting condition of malnutrition, in turn leading to lack of energy aggravated by a trying climate and enervating tropical diseases.

The task faced by the governments and leaders of these Asian countries is a formidable one and the problem of the free world is to find ways and means of assisting them to solve their many problems by democratic means and thus preserve their freedom. Their people will not wait forever for the betterment of their lot, particularly when they are exposed to the blandishments of Communist propaganda with its spurious offers of quick economic advantage via the Russian route.

It says much for the millions of Asia that so many have so far turned a deaf ear and have chosen the slower way of democratic constitutional government, but it also puts a great responsibility on their governments to prove to them that the way they have chosen is the best and will really produce for them a better way of life. This responsibility is not that of those governments alone; it must be shared by the whole free world if that world is to be kept in being and strengthened to the point where it is practically unassailable by sheer weight of numbers.

The Economic Needs of Asia

Recent European history now repeats itself and the need for a "Marshall Plan" for Asia becomes vital. But, except in Japan and to a lesser extent in India, practically no industry previously existed in Asia, and so the problem is entirely different, much more difficult, and extremely complicated. What has to be done is to create an economic balance between agriculture and industry in countries which are now around eighty percent agricultural at a poor and generally inefficient level.

First, the present inefficiencies and inadequacies must be remedied, and that is by no means as easy a task as many people think. Peasant

holdings are small, often broken up so that a man cultivates three or four small patches of land scattered over a fairly wide area. There is a mistaken idea in the West that the introduction of tractors and other modern agricultural machinery will quickly revolutionize farming in Asia as it has on the North American continent; nothing could be further from the truth. In Asia, far from a shortage of labour, there are millions of people under-employed and millions of others whose labours produce so little that they are always on the verge of starvation. This problem is closely tied to problems of land tenure, systems of landlordism which require the poor cultivator to part with as much as seventy-five percent of his crop and make him virtually the slave of the money lender. But it must not be thought that the new and sovereign governments of Asia, and particularly of South East Asia, are doing nothing about these problems. Some of them are still engulfed in internal chaos, or very slowly recovering from its resulting devastation, such for instance as in Burma; others are struggling with actual civil war; but in countries such as India, Pakistan, and Ceylon, for instance, governments are struggling manfully with staggering problems, and it is to help in these struggles that the West has moved in with considerable programmes of aid.

There are many agencies engaged in this task: the United Nations through its specialized agencies; the United States through its Mutual Security Acts of 1951 and 1952, once known as the Point Four Programme, and the Economic and Technical Assistance Programme, both carried out in the field by the Technical Cooperation Administration and now reorganized under the new Administration as the Foreign Operation Administration; the International Bank for Reconstruction and Development; the Ford Foundation; the American Friends Service Committee; various religious bodies, such for instance as the work in India of the Unitarian Church; and, lastly, the Commonwealth's Colombo Plan.

Self-Help and Agency Assistance in South East Asia

Before we consider what these agencies have done, we must look at the measures taken by these South East Asian countries themselves. India, for instance, has drawn up a five-year plan which is well conceived, economically sound, and which she revises from time to time on an empirical basis. Western aid to India, for the most part, fits into that plan and is coordinated with it. The plan is designed to build up the country and raise the living standards of its people by their willing cooperation and consent. Its first objective is more food. Roughly speaking, before the results of the first years of the plan began to show, India grew about forty-five million tons of food grains a year. Even in a good year that was some five or six million tons short of the needs of her people, and she was compelled to use her slender resources of foreign exchange to purchase this food shortage abroad. In years of poor crops, the food shortage to be made up could rise to seven or more

million tons a year. India plans to wipe out this shortage by growing more food. To attain this end, the plan contains two major and very practical parts: the first is a community project programme; the second, the erection of a number of irrigation and power projects.

The community projects are intended to draw the great mass of the Indian people into the five-year plan and to identify their efforts with it. The scheme came into being simultaneously in all States in 1952 and was spread over three hundred key villages, from which it has since spread on a wide scale. As we shall see later, the United States has materially assisted this endeavour. The objective has been to supply the villager with better seed, commercial fertilizer, and improved implements, to teach him better practices of tillage and land reclamation, and to consolidate the present fragmented land holdings. In the field of animal husbandry, the scheme aims at promoting breeds of better cattle and poultry and at using irrigation waters for fresh water fish culture. Under this scheme, a very considerable attempt is being made to show the villager how he can improve his own housing conditions, his domestic water supply, and the sanitation of his village, and so reach higher standards of health and living. Much has been done to stamp out malaria and other diseases destructive of human health and morale, and to introduce adult literacy, to promote social education, to preserve local folklore, and to encourage the building of roads by the villagers to open up and widen their community life.

It is in this field of the community projects that the aid of the United Nations special agencies and the United States Foreign Operation Administration have been largely enlisted. The contribution of the Colombo Plan has also been made in this field but not entirely, as we shall see later. Experts and educationalists in many fields have been sent out, as well as transport vehicles, earth moving equipment, audio-visual appliances for teaching at the village level, and much other material assistance not available from indigenous sources. Although India has been used here as an example, the same type of work is going forward on a varying scale in other South East Asian countries such as Pakistan, Ceylon, Thailand, Afghanistan, Nepal, Burma, et al.

Continuing to use India as an example, we come now to the second part of her five-year plan, similar in conception to the plans of Pakistan and Ceylon. This part of the plan calls for the erection of irrigation and power projects, and, generally speaking, much of the Colombo Plan, and especially Canada's part in it, has been identified with this endeavour. It is largely to promote this part of these national plans that the International Bank for Reconstruction and Development has lent in the neighbourhood of two hundred million dollars. The majority of Canada's contribution to the building up of these South East Asian Nations has also been in this sector.

In India in 1947, only about six percent of her river water was being used for irrigation purposes, leaving ninety-four percent to flow to the sea unused, with the result that four-fifths of the area under cultivation was not irrigated and grew only catch crops dependent on an uncertain rainfall. Now, about twelve major and one hundred minor irrigation projects have been started. Many of these are known as multi-purpose projects. They have three ends in view: to provide irrigation; to control the disastrous floods which for centuries have cost such huge loss of life and ruined so many poor people; and to generate electricity with which to process food crops, such for instance as milling, crushing of oil seeds and so on, and to provide power for small cottage industries and, in suitable areas, for more ambitious industrialization. More than one-quarter of India's five-year development plan will be devoted to these projects, which will bring at least twenty-six million acres under irrigation and grow upwards of an additional seven and a half million tons of food. Electric power is expected to increase from about 1.4 million kilowatt hours in 1947 to 2.8 million kilowatt hours in 1956, and soon thereafter to 3.2 million kilowatt hours.

Using different figures, the same type of progress is expected from similar plans in Pakistan and Ceylon.

The Encouragement of Private Enterprise

Of particular interest to the Canadian businessman is that sector of these national plans which deals with private enterprise and the part it can play in the overall picture of South East Asian development. Committees have been set up to review the availability of bank capital and to study alternative sources. The Pakistan Industrial Development Corporation has been most vigorously raising capital for plants of many kinds, paper making, small ship building, jute mills, cotton mills, power development, et al.

In India, a similar body, the Development Corporation, has been set up which will enable the government to lend money to industry on terms similar to those of the Industrial and Commercial Finance Corporation of the United Kingdom. There now exist the Sindri Fertilizer Factory, the Chittaranjan Locomotive Works, the Hindustan Shipyards, a factory for the production of penicillin and D.D.T., the Mysore Iron and Steel Works, and a large machine tool plant — Germany has entered this field in a cooperative endeavour with India in the field of steel. To give research backing to this industrial programme, the Council of Scientific and Industrial Research has started a chain of modern laboratories throughout India and the Central Salt Research Institute, the Art and Art Silk Research Institute, and the Central Electronics Research Institute have all been recently opened. In Pakistan and Ceylon, both smaller countries and not so fortunate in trained personnel, similar institutes — suitable to the products of those countries — are contemplated.

The Colombo Plan

Now, let us see the part which Canada has played in assisting these countries to raise the standard of living of their people and help to build up our free world.

Canadian aid has been channelled through the medium of the Colombo Plan. There is some confusion in Canada as to what the Plan actually is. In January, 1950, the Commonwealth Foreign Ministers met in Colombo, Ceylon. The objective of the meeting was to review the broad economic aspects of the international situation with special regard to South and South East Asia. It was pointed out that the area comprised five hundred and seventy million people, which was one-quarter of the population of the world, and that those people had long felt the pressure of poverty and hunger. It was felt that the realization of self-government in the area made possible a new approach to that problem, and that the new sovereign governments, through a vigorous development of all their resources, could obtain a fuller life for their people. It was a Commonwealth approach to the problem.

The various governments of the area, and particularly India, Pakistan, and Ceylon, had prepared development plans which formed a basis for action.

It was recognized from the outset that the funds which were required for the effective development of the area were considerably more than could come from the area itself and from Commonwealth countries outside the area. Plans were drawn up for development over a six-year period from the middle of 1951. These plans were for capital development in the area and for a technical assistance scheme.

This Colombo meeting had considerable significance. It was the first time that all the Foreign Ministers of the Commonwealth had met in Asia, and it was the first time that India, Pakistan, and Ceylon attended such a meeting on a basis of complete equality and from a background of absolute sovereignty and self determination.

The name "Colombo Plan" has no greater significance than that its inaugural meeting happened to take place in that city.

The Colombo Plan, as then envisaged, called for five billion dollars of capital over the six-year period of the Plan, and it was realized that at least three billion dollars of this would have to come from outside the area. To enable the Plan to commence operations, the following financing was arranged:

Over the six years of the Plan — 1951-57 — the United Kingdom will release to India, Pakistan, and Ceylon, blocked sterling at the rate of forty-two million pounds a year; in other words, she will pay off her debts to those countries at that accelerated rate which will be a very considerable drain on her resources.

Australia will contribute at least seventy-five million dollars. New Zealand will give the equivalent of nine million dollars over the first three years. Canada has contributed twenty-five million dollars each year for capital expenditcres and four hundred thousand for technical assistance, that is, the sending out of technical experts and the training in Canada of Asian students and others from the area.

The Australian and New Zealand contributions have been composed of agricultural machinery, medical equipment, medical institutes, earth moving equipment for dam building, aid for a cement factory, railway equipment, etc.

Canada's Contribution to Asian Development

Our Canadian contribution has been divided into two parts: capital aid to India, Pakistan and Ceylon, for which one hundred million dollars have been, or are in process of being, spent; and technical assistance to those countries and several others on which one million six hundred thousand dollars have been expended or will have been by the end of the present fiscal year.

Our Canadian capital aid has been aimed at helping to meet the basic food shortage and allied problems. In the fiscal year 1951-52, we gave ten million dollars worth of wheat to India to meet a famine emergency which had developed there. The Colombo Plan was not designed as a relief agency, but when a Commonwealth partner has a famine, we have to help; to keep the objectives of the Plan in view, India agreed to set up rupee counterpart funds against the gift of wheat which were used to assist in the building of the Mayurakshi dam, which is an irrigation and electrical generation project. It is in West Bengal and when completed it will produce nearly four hundred thousand tons of food annually and thus make a permanent contribution to the Indian food problem. In the fiscal year 1952-53, two million five hundred thousand dollars were allotted for electrical generating equipment, which is now being manufactured and which will make this project very largely a complete Canadian contribution. In the same year, 1951-52, we manufactured in Canada four and a half million dollars worth of trucks and some buses for the Bombay State Transport Commission. This transport equipment was urgently needed to improve transport facilities in the State of Bombay, where the Commission had been set up but had no capital with which to work. The Port of Bombay could not be quickly cleared, and as a result, shipping was being held up, food could not be adequately distributed, and cultivators were unable to get to markets; it was imperative that something be done. It must be remembered that it is almost as important to be able to move food about as it is to have it to move.

In Pakistan, in the same year, five million dollars were set aside for the construction of a cement plant for the Thal Area of the north-west part of the Punjab. In this area it is hoped to settle some of the seven million refugees uprooted from India at the time of partition. The Thal is a new irrigated settlement project, but to get water there, cement ducts will have to be constructed; otherwise the water sinks into the thirsty sand. Also, town sites and houses have to be built; there is so much to do, and the area is so isolated that it is too costly to import cement, particularly when all the ingredients for making it are available in the area. There is a Canadian erection crew on the site and much of the machinery which was made in Montreal has already been shipped. In this same Thal area, Canada, in conjunction with Australia and New Zealand, is bringing into being an experimental farm which will supply the new settlers with animals, selected seed, and agricultural advice. One of the most important contributions which Canada has made to Pakistan was part of our contribution for 1951-52. It took the form of a resources survey carried out by the Photographic Survey Corp. Ltd. of Toronto. The objective is to map the resources of the country just as those of Canada have been mapped with such great success. Since its inauguration, Pakistan has run into a food problem, and the survey has now been extended to include land use and to provide other data which will assist not only in the best use of land already under cultivation but also in searching out likely irrigation sites and showing where more food can be grown by land improvement.

In 1951-52, the International Bank made a railway loan to Pakistan, to assist in rounding out the necessities for railway rehabilitation, Canada agreed to give Pakistan two million eight hundred thousand dollars worth of wooden railway ties.

In the fiscal year 1952-53, five million dollars worth of wheat was given to India under the same terms and conditions as in 1951-52, and again the counterpart funds generated were contributed to the Mayurakshi project. During the last war, the railways of India were terribly run down; not only were they over-worked, but replacements could not be obtained, with the result that drastic measures have had to be taken during the last few years to keep them running. To assist in this endeavour, Canada agreed to contribute locomotive boilers which were urgently required to the extent of roughly two million dollars. In this fiscal year, 1953-54, arrangements have been made to spend eleven million dollars on steam locomotives; further to aid the Indian railway rehabilitation programme ten million dollars will similarly be spent during the next fiscal year; and for these two sums, India will receive one hundred and twenty very up-to-date steam locomotives, all of which will be built in Canada.

A considerable problem is developing in all the South East Asian countries because of the fact that our aid and that of the United States and other Commonwealth countries inevitably involves the receiving country in very considerable expenditures for land purchase, buildings, and many other expenses, which in the nature of things the donor country cannot contribute. To help India to meet these expenditures, Canada will contribute commodities in the form of copper and aluminum ingots which India will sell to her manufacturers, thus creating rupee funds to be used for her part of projects for which Canada will supply the foreign equipment content from Canadian industry. One such project will be Umtru in Assam. This province is very backward, and the Indian Government is very anxious to do something for its poor people. One of the first requisites is power. A Canadian consulting engineer has examined the project and pronounced it sound and workable. Canada will invest upwards of one million dollars of Colombo Plan funds to give the people of Assam a Canadian power plant, and will also provide supervisory engineering services to bring the dam structure into being.

In Pakistan, we have undertaken the Warsak project. Warsak is about nineteen miles from Peshawar in the North West Frontier Province of Pakistan. Canada will meet the cost of designing the project; this assignment will be fulfilled by a firm of Canadian consultants who will also supervise the work of construction, for which Pakistan will pay a mutually agreed-upon contractor. Canada will pay for and supply all the electrical generation equipment, control gates, distribution lines, etc. This Warsak project will provide power and irrigation for the North West Frontier tribesmen who are in urgent need of both to enable them to earn an adequate livelihood in their barren territory. In 1952-53, Pakistan ran into serious crop failures, and Canada contributed wheat under the Colombo Plan to the extent of five million dollars and a similar amount as a special gift outside the Plan. In the same year, three aircraft were supplied to Pakistan to assist in pest control. In East Pakistan, provision has been made to supply a thermal plant to drive the pumps for a large irrigation scheme known as the Ganges-Kobadak Project, which will bring fertility to roughly one million acres of land. Another project in the same area is the Chittagong-Dacca Electric Distributory Link which Canada will undertake.

In the fiscal year 1952-53, Canada commenced aid to Ceylon in the form of a fishing project for which two experimental boats were built in Canada; fishing equipment was supplied with them; also a trawler was purchased in England. A refrigeration plant is being built, and this Canadian fishing project, when completed, will make a considerable contribution to the food resources of Ceylon. One of the complicated problems of Ceylon is concerned with ways to move people from the over-congested area north and south of Colombo and into the large

under-developed areas of the Island. To accomplish this, the government has brought into being the Gal Oya Irrigation Settlement Project. Land is being cleared, and to enable power to be carried into the area, Canada has agreed to build a distribution line from a power house already in existence. Two diesel locomotives are now being built in London, Ontario, to assist in the rehabilitation of Ceylon's railways. The same counterpart fund device is also being used in Ceylon from the sale of flour which Canada has supplied, and from these counterpart funds, a Polytechnic Institute, for which Canada will give the equipment will be set up; also, rural roads, which are urgently needed, will be built. In Ceylon also, pest control units are going out from Canada to prevent food from being destroyed and to keep down tropical disease.

Opportunities for Future Business Cooperation

It will be readily seen that through the Colombo Plan Canadian business and industry is making a very considerable contribution to the building up of a greater prosperity in the Commonwealth countries situated in South East Asia. The Colombo Plan, however, is obviously only a beginning, and Canadian manufacturers should be thinking about the future for their exports to this area, which, inevitably, will become of great importance in the next twenty years. Schemes of aid, such as the Colombo Plan, only scratch the surface and cannot hope to rehabilitate South and South East Asia; rehabilitation can be accomplished only by the people themselves, using all their resources and eventually entering the flow of world trade. It is towards this period that the Canadian manufacturer should be planning now. It is doubtful if individual companies are likely to meet with much success in those countries where order has only recently, or has not yet, been established, but there are opportunities in India, Pakistan, and Ceylon for certain types of manufactured goods and for making arrangements for local manufacture. The Asians who have come to Canada to study and to gain industrial experience have made the acquaintance of Canadian products and equipment and will carry that knowledge back with them. Canadian engineers and other experts who have visited the area on Colombo Plan business and who will do so in the future will see the future possibilities of the area for business cooperation with Canadian business and industry. At this stage, instead of individual firms sending out representatives to look around, it might be better for such bodies as the Canadian Manufacturers Association, the Exporters Association, and others to send out a mission, or even to establish permanent offices and so acquire a first-hand knowledge of the area and its likely future development.

A free world cannot be built without the free nations of Asia; likewise it must have the full cooperation of the free businessman who has a part to play, the great importance of which he does not yet realize.

Canada Hailed Internationally —By Design

D. W. Buchanan

Good design is selling more products internationally. Recent exhibits of Canadian products in New York have filled firms' order books—through good design. Here, Mr. Buchanan tells what is being done in Canada to foster better design—and ends with an appeal to businessmen to help improve design and thereby help themselves.

ONE belief still firmly held by many sales managers in Canada is that the public wants over-ornamented and old-fashioned styles, that the consumers prefer discomfort, if it is traditional, to convenience and neatness, if it is modern. Consumers' organizations, however, have a different story, and they sometimes protest that retailers do not offer the public sufficient choice of improved designs so that consumers can make up their own minds as to what they actually do want.

The National Industrial Design Council

To promote constructive discussion of such problems among designers, manufacturers, and retailers is one of the many functions of the National Industrial Design Council. Its members emphasize that changes in the design of manufactured articles should be in the direction of greater simplicity and of greater comfort and convenience in use. Its basic objectives, of course, are human ones. First, that more trained Canadian talent should be used in the design of Canadian goods. Second, that Canadian goods should give more satisfaction, more comfort, and more pleasure in use than ever before.

During its first six years of existence, the projects launched by the Council have quite varied in scope. The Canadian Manufacturers' Association has held discussion conferences in cooperation with the Council, and other trade associations have also participated in similar activities. Retailers have helped by presenting exhibits of good design in stores, and some of them have gone further and have used educational material on good design in their training courses for sales personnel.

Any group interested in product design programmes can obtain help from the Design Centre, which is the national headquarters of the NIDC in Ottawa. If an industry wishes to hold a competition for new designs,

the NIDC will plan, administer, and publicize the contest across Canada. In the past, the Aluminum Company of Canada and the Canadian Lumbermen's Association have joined in financing projects of this kind. A new contest was launched last March in cooperation with the Canadian Jewellers' Association; it seeks new designs in silverware. The Council also is calling a conference this autumn of both retailers and manufacturers of furniture so that contrasting opinions on how contemporary furniture should be designed and sold can be threshed out in open discussion.

Attracting most attention have been the annual NIDC Design Awards. These are for products which, according to the judges, prove to be most outstanding in design, that is attractive in appearance, suitable in purpose and price, and acceptable on the Canadian market. These are not laboratory ratings, but rather attempts to give credit to those who manufacture well designed goods. The award is in the form of a good design label which can be used on the winning products.

Last year there were 46 awards, of which 37 went to original Canadian designs. This year there were 95, of which 77 went to Canadian designed articles. The others were Canadian-made, but foreign designed, articles. So the Canadian designer, in open competition, has been able to do more than hold his own.

Factors Underlying NIDC Development

If the Council's work is now beginning to bear such fine fruit, why, some may ask, did it only begin six years ago? The reason is an old Canadian phenomenum—the time lag.

The international trend towards functional design related to contemporary needs dates from the nineteen twenties. Long before 1939 in Europe and the United States, this movement had countless adherents in industry and a host of professional consultants and staff designers. But there was hardly a sign of them in Canada. Yet, during World War II, Canada found herself in the enviable position of fourth trading nation in the world. It was not difficult to hold that position while the war was on, but when the occupied and devastated countries started their industrial recovery and began turning out consumer goods, Canada was faced with increasing competition in the world market from new and improved designs. Other countries had their distinctive products: Swedish furniture, British china and textiles, Italian glass, American electrical appliances, Indian rugs, German cutlery and toys. In the creation of outstanding design, Canada was behind.

At about the same time, there came a crisis in the dollar exchange with the United States. That was in 1947, when we had to cut our pur-

chases of American goods drastically. Something had to be done to lessen the amount of money being paid by Canadian manufacturers, not only for American tools and parts, but also for the rights to use designs and blueprints. The obvious answer was to design goods independently and to employ more Canadian talent in this field.

Organization to Meet Modern Needs

In an attempt to give proper recognition to existing Canadian talent, and to encourage design in industry in Canada, the National Industrial Design Council (then Committee) was formed in 1948. This council was composed of a number of persons from all over Canada who had begun to take this problem seriously. They included architects, designers, manufacturers, retailers, educationalists, research officials, and members of government agencies. Since 1948, by means of funds supplied by the government through the newly formed Industrial Design Division of the National Gallery of Canada, it has given publicity to improved design by means of competitions and has provided scholarships for advanced studies in product design.

There have been travelling exhibitions and displays to stimulate public interest in good design and pamphlets about industrial design for manufacturers, retailers, and consumers. A permanent Design Centre for displaying Canadian designs of merit and also occasional foreign exhibitions was set up in Ottawa and opened to the public in February, 1953.

The purpose of applying design to the production of useful objects is to make sure first, that the object in question will do its particular job well, and second, that it will be pleasant to look at. This means both ease and efficiency in use, and proportion and harmony in form and appearance. In planning the most pleasing and useful arrangement of these elements, one fundamental law applies: plan essentials first, and details will follow naturally.

The industrial designer thinks first in terms of function and to do this, he must, particularly with household equipment, thoroughly understand human needs and values. Is a chair, for example, to be used for dining or eating, for reading or sitting? The answer will determine to a large extent the chair's basic form. Form means nothing without function.

The trend today in manufactured products is towards simplicity of design. This is due partly to less household help and partly to the realization that a simple design reveals good proportions and an honest use of material. These principles are incorporated in the selection rules for

the Canadian Design Index, photograph and publicity archives of new products of merit made in Canada. Such listings are made by an advisory committee every three months. They are illustrated on loose-leaf sheets sent to professional and business firms and to magazines and colleges. They also serve as the basis for exhibitions and for the judging of the annual Design Awards.

Administrative Changes and Present Plans

In April, 1954 the NIDC was reorganized; it is now given a permanent constitution. It is to have 20 members in future; and every two years, some members will retire in order to be replaced by others so that all groups interested can be assured representation on the Council. Now being appointed are two representatives from the Canadian Manufacturers' Association, one from the Canadian Association of Consumers, two from the retail trade, and two from Canadian universities, two from the Association of Canadian Industrial Designers, and two from government departments. There is also a patent attorney on the Council, versed in the legal aspects of design registration. Two other members are drawn from the magazine and publicity field. The rest are individual manufacturers, chosen from varied branches of industry and from all regions of Canada.

The Council's next objective is to obtain greater and greater financial support from industrial groups. It has an income of about $50,000.00 a year, guaranteed from government founds. About half of this has to be used to maintain headquarters in Ottawa and to circulate exhibitions and publications. The rest is for the promotion of direct activities in the retail, consumer, and manufacturing fields. Yet, by its terms of reference, most of this government money is only available if it is met on a 50-50 basis by funds provided by industry. There have been several such projects in the past. The newest one to be launched is an exhibition of international scope demonstrating what the fundamentals of good design in aluminum products are from architecture and street lighting to pots and pans. The Aluminum Company of Canada has put up enough money to enable the NIDC to construct this exhibition and to hire a competent designer to do the research and to find products of merit from all nations of the world to show. The NIDC will shoulder the administrative cost and circulate the exhibition across Canada and give it full publicity. The contents of the exhibition are not determined by the Aluminum Company of Canada, nor is it its exhibition. The NIDC decides what are suitable products to show and its name will be on the exhibition. The Aluminum Company, however, is giving the money because they think this is a worthwhile method of developing a more intelligent interest in aluminum among both consumers and manufacturers.

Occasionally two cooperative projects are launched in which both parties contribute services but no actual money is involved. For instance, this year, the British Columbia Lumber Manufacturers Association is erecting 10 Trend Houses, small houses of contemporary design demonstrating the use of British Columbia woods, in various Canadian cities. These will be open as exhibition houses for six months. So that the houses will also show good design in Canadian furnishings and equipment, the architects and the T. Eaton Company Limited, who has contracted to furnish them, have agreed, as far as possible, to equip them only with Canadian designs of merit listed in the Canadian Design Index maintained by the NIDC. Thus there will be ten displays running simultaneously across Canada, giving hundreds of thousands of Canadians a chance to see good design in Canadian products actually on view in home settings. Yet, except for overhead expenses, no actual money has to be voted by anyone for this worthwhile project.

Further Methods of Participation

These two ventures are mentioned in the hope that they will serve as a stimulus to other organizations and manufacturers. Yet there are many other ways in which manufacturers who produce consumer goods can also help. First, if you think you are putting a good new design on the market, let the NIDC know about it so it can be examined by a selection committee for possible listing in the Design Index. If the selection committee for any reason turns it down, they will then let you know the reason. Second, if you need the services of designers, the NIDC will be glad to give you a list of practising professional designers in Canada and also put you on its mailing list for other information material. Third, if you already have someone on your staff, or as a consultant, who has been designing for you but who you think needs or deserves wider experience in this field, we suggest that you have him apply for the grants the NIDC is giving this summer to enable men already engaged in industry to spend two weeks at a professional course on design in industry which is being held by the Massachusetts Institute of Technology. This has been set up for engineers and designers in industry and caters only for them. To enable qualified Canadians to attend this course, the NIDC is offering five grants-in-aid for $300 each. These are supplementary to a post-graduate scholarship of $3,000 ($1,500 each year) tenable for two years at certain recognized schools of product design in England and the United States. This is offered to Canadians who are graduates of universities or schools of design.

Steps Towards Greater Recognition

A final word about good design and export markets. As the Right Honourable C. D. Howe, Minister of Trade and Commerce, wrote in 1949: "We must be realistic and face the fact that it is superior design which is helping, in many instances, to sell these new European products

in competition with our own goods. Sweden, Great Britain, and Italy are placing more emphasis than ever before on the use of trained designers by industry."

While exchange restrictions make it difficult for even the best of Canadian manufactures to be sold in Europe and sterling bloc countries at the moment, the situation, however, will not last forever. In the meantime, one of the only ways in which Canadian manufactured products of merit can be brought to the considered attention of interested persons in these countries is through international design publications and exhibitions. There are many of these. For example, a German firm publishes a book annually devoted to a world-wide selection of good product designs. Magazines of this type are also printed in England, France, Japan, the United States, and Italy. All such publications receive photographs of new Canadian products listed in the Canadian Design Index. It is most gratifying to note the extent to which they are using this material. The latest German annual had almost as many Canadian designs illustrated in it as it had American. Articles on the NIDC Design Awards have also appeared in England and France. Organizers of international exhibits on good design, having read these articles and seen these photographs, have on their own initiative requested that the products in question be sent for display abroad. All this helps to keep the world aware that Canada, too, has creative talent in contemporary design and that, from the point of view of harmony and proportion, neatness and efficiency, the best of its products do satisfy international standards of judgment. The Canadian Department of Trade and Commerce has now definitely recognized the importance of this aspect of the Council's work. To emphasize that Canada has come of age in industrial design, that department is assisting the Council in preparing and erecting a Canadian design exhibit this year at the Tenth Triennale in Milan, Italy. Here in the world's only large scale exhibition devoted exclusively to contemporary design in manufacturing and architecture, Canada for the first time will have a room of her own in honourable competition with Great Britain, the Scandinavian countries, Germany, France, the United States, and the Netherlands.

Provincial Sales Taxes in Canada

John F. Due

Provincial sales taxes have come to stay, as businessmen in Quebec, New Brunwick, British Columbia, Saskatchewan and Newfoundland know to their cost. Are you planning selling in these provinces? Professor Due explains how accounting must be modified and the other effects these taxes have on business.

THE taxation of retail sales is a relatively new source of revenue in Canada, but one which has already become firmly established and is likely to increase in importance in the future. Very little attention has been given to the procedures which business firms have followed in complying with these taxes, and to the effects which the taxes have had upon business operation. The present article is devoted primarily to a survey of these questions, based in large measure upon a field study of the provincial sales taxes made by the author for the Canadian Tax Foundation in 1952*. First, however, a brief review of the development and structure of these taxes is necessary.

The Development and Structure of the Taxes

The city of Montreal imposed the first retail sales tax to be used in Canada, in 1935. First provincial use came in Alberta, which introduced the tax in 1936, but repealed it in 1937. In the latter year, however, Saskatchewan levied a sales tax, and the province of Quebec did so in 1940. In the postwar years three new sales taxes were introduced as the provinces struggled to meet demands for additional services in the face of rising costs and limited revenues from other sources. The British Columbia tax came into operation in 1948, and those in New Brunswick and Newfoundland, in 1950. Meanwhile, the sales tax spread rapidly among the cities and school districts in Quebec, until the great majority of the urban areas in that province now use the tax. The development of the provincial sales taxes was greatly influenced by the success of the tax in the United States, in which it is now used by thirty-two states and a number of cities, and is the chief single source of state revenue.

The five provincial taxes now in effect are levied at rates ranging from 2 percent in Quebec (together with a 2 percent city tax and

*The complete results of the study were published in the volume by the author, *Provincial Sales Taxes* (Canadian Tax Foundation, Toronto, 1953).

1 percent school tax in most urban areas, also collected by the province) to 4 percent in New Brunswick, with 3 percent rates in Saskatchewan, British Columbia, and Newfoundland. Only Quebec actually designates the tax officially as a sales tax. In the other provinces the designation is based upon the use of funds, although in popular usage the term "sales tax" is often employed, except in Saskatchewan, in which the term "education tax" is the popular designation as well as a part of the legal one (education and hospitalization tax). These five provinces contain roughly half of the population of Canada.

The taxes apply to retail sales, defined as sales for consumption or use rather than for resale, and are confined to sales of tangible personal property; real property, intangibles, and services are thus excluded. Sales of materials which become ingredients of other products, and sales of parts which become components of other products are interpreted to be sales for resale, and thus are not taxed. In addition, all of the Acts exempt various other producers' goods, in order to lessen multiple taxation and the burden on certain types of businesses. Catalytic agents are exempted in four provinces, some fuel and industrial power in most cases, industrial machinery in New Brunswick, farm equipment and livestock feed in all provinces, and equipment used by commercial fishermen in four. Quebec exempts the percentage of the value of all purchases by each manufacturer which is equal to the percentage of sales made outside the province by the firm to its total sales. Purchases for business use not covered by these exemptions are subject to tax; these include purchases of various supplies, equipment and machinery, vehicles, building materials, etc. A retail sales tax is by no means confined to sales by retailers in the usual sense of the term.

In addition to the exemptions of producers' goods, all of the taxes exempt certain basic necessities, in order to lessen the burden on the poor. Drugs and medicines are exempt in all provinces, and most food products in all provinces except Newfoundland, which now confines its exemption to a very few basic food items, such as milk. Several provinces exempt household fuel, electricity, soap, children's clothing, books, and other minor items.

The exact base of the taxes is defined by the Acts and regulations. The taxes are confined to transactions in which tangible personal property is involved, and thus services as such are not taxed. But when such services as installation, delivery, and financing are provided together with the product without a separate charge, the entire price is taxable. If the charges for these services are billed separately to the customer, however, the tax does not apply to them. Very complicated rules apply to contract work. Special problems arise with service establishments such as garages, beauty parlors, laundries, etc. If the materials

used in rendering the service are responsible for only a small element in total costs, as is the case with barber shops, the establishment is regarded as a consumer, rather than vendor, of the articles and is taxed on its purchases rather than on its sales. If materials and services are both important elements in cost, as is often true with repair work, the establishment is regarded as a vendor, but is required to collect tax only on the charges for parts and materials, if these are invoiced separately from the charges for labour. If the service is considered to be manufacturing, as is the case with printing, the entire charge for both labour and materials is taxable. The exact rules, however, vary among the provinces.

All firms making retail sales (and, in practice, all firms buying materials or parts, even if they make no retail sales) are required to obtain registration certificates or licenses. These may be revoked, but in practice almost no use is made of this procedure of enforcement. When a firm buys articles for resale, or materials for use in production, it must quote its license number at the time of purchase. Firms are not permitted, as a general rule, to make purchases of goods to be used for taxable purposes tax-free under license and account for tax on them themselves, although in practice this sometimes happens.

Tax returns must be filed on a monthly basis except in Saskatchewan, in which a quarterly period is used. Firms are required to keep adequate records (although in practice they do not always do so) and to make them available for inspection. The provinces make a close check upon delinquent payments and carry on extensive inspection and auditing programs, although only a small fraction of the vendors is reached by careful audit each year.

The legal liability for the taxes is imposed upon the purchaser of the product, since a tax levied directly on the seller would be regarded as an indirect tax and thus would violate the provision of the British North America Act which denies the provinces the right to impose indirect taxes. The vendors, in turn, are designated as agents of the province for purposes of collection of the tax and are required to collect the tax from the customer and remit it to the province. The technical imposition of the tax upon the customer is therefore essentially a legal fiction, designed to allow the provinces to avoid the constitutional prohibition of indirect taxes. The vendor is obligated to shift the tax to the customer, the amount to be collected on each figure of selling price being specified in a bracket system established by the Acts or regulations. No tax is due on sales under a certain specified figure, varying from 10 cents to 17 cents in the different provinces. Vendors receive an allowance, ranging from 2 to 4 percent of the amounts of tax collected, to compensate them for their work as "tax collectors".

A person is also liable for payment of tax on goods purchased outside of the province and brought in. This rule, however, is not enforceable in many cases.

Primary responsibility for collection of the tax and payment of it to the provinces therefore rests upon firms making sales at retail. These firms consist largely of retailers in the usual sense, but also include manufacturers, wholesalers, and service establishments making retail sales, as the term is defined by law. All firms are responsible for payment to the province of taxes upon goods purchased tax-free and then used for taxable purposes. Manufacturers typically owe more taxes on their purchases than on their sales, and most firms find that the greatest dangers of accidental failure to pay correct taxes arise with purchases. The introduction of the taxes has created new tasks for the business firms and in various ways has affected their earnings and their business policies. The remainder of thearticle will survey the procedures followed in performing these tasks and the various effects which the taxes have had upon the businesses involved.

Tax Compliance Tasks of Business Firms

The tasks of compliance with the sales taxes rest primarily upon retailers, since they are responsible for the collection and payment of the bulk of the total tax. But virtually all business firms have some contact with the tax, either through incidental retail sales which they make, or through purchases of taxable goods. Some of the major tasks of the firms are outlined in the succeeding paragraphs.

A. Obtaining Information

The business firms must gain sufficient information about the tax to enable them to comply with the requirements. There are several major sources of information:

1. The Act, regulations, and general instructions or summary of rulings, available in pamphlet form without charge from the provincial tax administrators. Quebec has no general documents for public use except the Act itself.

2. Circulars relating to particular lines of business, issued by the tax administrators. New circulars are usually mailed to vendors in particular lines affected.

3. Direct inquiry, by mail or in person, of the provincial tax offices.

4. Local retailers' associations, boards of trade, or province-wide trade associations. Officials of these organizations are usually well-versed in the taxes and can either provide the necessary information or

refer persons to the right sources. Some of these organizations have issued pamphlets on aspects of the tax which affect the particular types of business.

5. The various tax services published by commercial publishing houses. The CCH Canadian Ltd. volume, *Quebec Tax Reports,* is the best source of information on the Quebec tax. The sections in the tax services on the other provincial sales taxes are rather sketchy.

B. Procedures for Collection and Accounting for Tax

A firm subject to a sales tax must establish a routine for collection of the appropriate amounts, for control of the amounts collected, and for determination of tax liability to the province. The information obtained about the tax must be passed on to clerks and other personnel involved, and instruction given to them with regard to collection of the tax. Some firms mimeograph information relating to the tax, and many firms place lists of exemptions beside cash registers.

Firms must establish systems for recording and accounting for the amounts of tax collected, and for checking upon taxes due on purchases. The sales tax Acts require that the tax be collected from the customer as an item separate from the price of the article; accordingly it is illegal for the firm to absorb the tax, or readjust prices upward to cover the tax and collect the entire amount as one sum, and the system set up for accounting for the tax must identify the amounts of tax collected from the customers. In general, the provinces insist that the vendors remit to the province the exact amount of tax collected from their customers, and thus they must determine tax liability by summing the various amounts collected, rather than by applying the tax rate to the figure of taxable sales.

There are several procedures which firms follow in recording the amounts of tax collected and determining the amount of tax due to the province on their sales:

1. Physical segregation of the sales tax receipts. Many smaller firms follow the simple procedure of placing all tax collected in a jar or other container kept beside the cash register, or in a separate drawer in the cash register. No record is made of the amount of tax collected on each sale, and the amount of the tax is not rung up on the cash register, even if it is placed in a special cash register drawer. Under a closely related method, the money is not physically segregated in the cash register, but only the amount of sale without tax is rung up. The surplus cash in the register at the end of the day is the tax presumably collected.

At intervals the amount in the separate container is counted and recorded, and these sums are added at the end of the tax period to determine tax collected and payable to the province. The figure of taxable sales required on the tax return is determined by dividing the amount of tax by the tax rate, and the difference between this sum and the figure of total sales is reported as the figure of exempt sales.

The separate-container procedure is confined largely to small merchants, especially in rural areas, but is occasionally encountered in larger firms. The merit of the procedure is its simplicity. But it affords no check upon the accuracy of the figure of tax collected, relative to the correct tax liability of the firm. Clerks may forget to drop the tax pennies in the container, or to collect the tax at all, and the funds in the container may be used to make change. There is no internal control at all over the tax money, which may be "borrowed" by employees and not returned. The only check on the accuracy of the amount collected during the period is a comparison of the ratio of tax collected to total sales with the same ratio in preceding periods, a method by no means entirely satisfactory.

2. The use of tax tickets. In all provinces except Newfoundland (in which there are no chain variety stores, the type of business most frequently employing the system), some use is made of tax tickets in recording tax collected and determining amount of tax liability. A roll of specially printed tickets is placed beside the cash register, and one ticket is torn off and given to the customer (to whom it serves as a receipt for the sale) for each penny of sales tax collected. The tax is included in the price rung up on the cash register, but is not rung separately. The tickets are numbered serially, and the amount of tax liability is determined at the end of each day by comparing beginning and ending serial numbers on each ticket roll in the store. These amounts are recorded and cumulated at the end of the month.

The ticket system is permitted only for variety stores in Quebec, New Brunswick, and Saskatchewan, and the last two provinces named are becoming increasingly sceptical about continued use of the system for even these stores. On the other hand, the province of British Columbia encouraged widespread use of the ticket system when its tax was first established, and provided the tickets to the firms free of charge. But many merchants had unsatisfactory results with the system and soon abandoned it, and the provincial authorities eventually became convinced that their original support of the plan had been a mistake. While the use is still somewhat more widespread in that province than in others and is not confined to variety stores, it is rapidly diminishing.

At first glance the ticket system would appear to be a simple and effective means of maintaining control over the amounts of tax collected.

But the system is costly to operate, the cost of printing the tickets exceeding the allowances to the vendors in most cases. Even more seriously, it has not proven to be an effective control device, because it is not possible to insure that clerks tear off the correct amounts of tickets. Frequently they forget to tear the tickes at all, or tear too few, and the customer either does not notice, or does not care. Store managers have discovered that if they place too much pressure on the clerks, they then tear off too many, and thus cause the store to pay more tax than necessary. One large British Columbia drug chain which has been shifting from the ticket to the cash register system has discovered that the ratio of tax reported to total sales always rises when the change is made in a store.

3. Tally-sheet recording. Some firms, especially those having numerous small sales, record the amount of tax on a tally sheet kept beside the cash register. Just as with the ticket system, the cash register is rung with a single figure including both the sale price and the tax. This method, which is widely used by variety stores in the United States, avoids the costs of printing the tickets, but otherwise suffers from the same limitations as the ticket system. While internal control over cash is maintained (as it is not under the separate-container system), check upon the accuracy of the reported amounts of tax is difficult and costly.

4. Separate recording of tax on the cash register. The most satisfactory method of recording tax, if sales invoices are not used, is that of ringing up the tax separately from the charges for the goods on the cash register. This method is possible, of course, only if the cash register permits identification of the tax amounts, which older and inexpensive types of registers do not.

The most modern types of cash registers provide a separate tax key, and total as a separate item the amounts of tax recorded by this key. The sums can then be entered into the ledger and cumulated, without the necessity of totalling the tax amounts from the cash register tapes. This type of cash register minimizes the amount of work involved and provides most effective control. Large department stores particularly have installed this type of equipment.

The more common type of cash register allows the identification of the tax amounts (which are rung separately) on the tape by a code letter, but does not total the tax amounts separately. As a result, the tax items on the tapes for each sale must be added separately on an adding machine. The figure thus obtained is recorded in the ledger, together with the figures of taxable and non-taxable sales, and cumulated at the end of the tax period. On many cash registers, the tapes are so arranged that the clerk can write on the tape the reason why a particular item is recorded as tax-exempt (food, farm equipment, sale to province, etc.).

The cash register system in general ensures more accurate recording of tax than the methods discussed above, especially if the reason for not collecting tax on particular sales is indicated, by code number or notation. Spot checks of the tape will reveal most errors in the application of the tax, but not necessarily certain errors in the punching of the machine, such as the recording of the sale of a taxable item as a tax-exempt sale. Larger firms using the cash register system frequently make additional checks on the accuracy of the work of the clerks in recording tax by comparing the current ratios of tax to total sales in various departments with the ratios typical in the past for those departments. If the figures are out of line, more careful check is made. Otherwise, neither the firms nor the provincial auditors find it worth while to make more than a sample check of the tapes, but the fact that they can be checked helps to keep the clerks in line.

5. Recording of tax on sales slips or invoices. Firms which follow a policy of writing sales slips on all transactions ordinarily record the tax as a separate item on the slip. The bookkeeper then enters these amounts into the journal, from which they are cumulated into the ledger, or, in larger stores having bookkeeping machines, are recorded separately and totalled by the machine. In some respects this system is the most satisfactory of all, since the details of each transaction are recorded, and the accuracy of the reported figures of tax may be checked easily, by both internal and tax auditors. On the other hand, the use of invoices slows down the completing of sales transactions, and is generally not feasible for stores which handle a large volume of business with relatively small average unit sales. The cash register system can be almost as effective, if properly used.

In Quebec, firms in cities having municipal sales taxes find it essential to write out invoices on all sales for out-of-city delivery. If the purchaser lives in an area which has no local sales tax, the rate is 2 percent, instead of 5 (or in a few cases, 4, if there is a city but no school district tax), and the invoices on these sales enable the retailer to determine the portion of his total sales which are subject to the 2 percent rate. If the purchaser lives in another urban area in which the sales tax is used, the invoice indicates the appropriate jurisdiction to which the city sales tax is to be allocated.

In practice, firms using sales invoices do not as a rule check all invoices to see that the clerks have applied the tax correctly. Department stores, for example, seldom make more than a spot check, unless irregularities are found. Firms having a small number of large-sum invoices, such as appliance dealers, frequently check all invoices for accuracy of sales tax charges.

C. Determination of Tax Liability as a Percentage of Sales

Under all of the procedures outlined in the preceding sections, the vendors maintain a record of actual amounts collected as taxes from their customers, and determine their tax liability to the province by totalling these amounts. A much simpler method of determining tax liability, and the one generally used in the United States, is that of applying the tax rate to the volume of taxable sales. The provinces, however, have been unwilling to permit the vendors to use this method, and have insisted upon payment of the sum of the actual amounts of tax collected from the customers. The latter sum will approximate the figure obtained by applying the tax rate to the amount of the taxable sales if the firm has large average sales, but there will be some difference if the vendor has many smaller sales since the bracket system cannot insure collection of the exactly correct amounts. The provinces have feared that if they did not insist on payment by the vendors of the exact amounts collected by them from the customers, the legal basis of the tax, whereby the vendors are merely agents of the provinces for tax collection purposes, might be impaired. The fears of the provinces have probably been exaggerated, since it would appear feasible to word the laws in such a manner that any excess collected over that remitted to the province would be regarded as a portion of the compensation allowed the vendors to cover their costs of collection. Much unnecessary expense could be avoided for the firms, with no significant loss in tax revenue, if the provinces would allow the firms to discontinue totalling the actual amounts of the tax collected. This change would not eliminate separate quotation or mandatory shifting of the tax, nor alter it in other ways.

Despite the prohibition of the percentage technique, some firms in all provinces, especially those with high average unit sales, without question use it, but are in danger of prosecution for violation of the law. In British Columbia, firms in certain lines have developed a somewhat related technique which has apparently had the implicit approval of the province, at least in the past, although provincial authorities deny that it is permitted. Under this method, the firm ascertains the typical ratio of tax collected to taxable sales during a test period in each department and then uses this ratio (which usually exceeds the tax rate percentage slightly) to determine its tax liability each month by applying it to the volume of taxable sales for the month. No record is made of actual taxes collected except in the test period. This procedure greatly simplifies the task of the stores, since the cash register need be rung only once, and no recording and accumulating of the tax amounts is necessary. The results obtained by this method will differ only very slightly from those obtained by the cumulation of the tax amounts. It is unfortunate that the provinces are not more willing to allow the use of this procedure, even if they will not approve the method which is standard in the United States, namely, the simple application of the tax rate itself to taxable sales.

D. Accounting for Tax on Purchases

Under the general intent of the Acts and Regulations, when firms purchase goods for taxable purposes, they are required to refrain from quoting their license numbers, and thus the tax is collected by the vendor, the purchasers having no further responsibility. In practice, however, there are several exceptions to the rule, and the rule cannot feasibly be applied in all cases in which it is legally applicable. Accordingly, firms must take measures to check their taxable purchases to ascertain if tax has been paid at the time of purchase and, if not, to account for tax themselves. The major cases in which tax is not applied at the time of purchase include:

1. *Purchases by manufacturers in Quebec and New Brunswick,* and by certain firms in British Columbia possessing special licenses allowing them to buy tax-free. The first two provinces named have found it necessary to authorize manufacturers to make all purchases tax-free in order to facilitate administration of the exemption of certain purchases by these firms (a portion of the value of all purchases of manufacturers in Quebec making sales outside the province, and industrial machinery in New Brunswick).

2. *Purchases by all business firms in Newfoundland.* Unlike the other provinces, Newfoundland has permitted all business firms to buy tax-free under license all articles purchased for business use and to account for tax on the taxable items themselves.

3. *Purchases from firms outside of the province.* These firms are not usually licensed and thus will not collect tax.

4. *Purchases for taxable use of goods normally handled for resale.* In all provinces firms are permitted to buy tax-free small quantities of articles for their own use of types which they buy frequently for resale. Thus, if a garage uses lubricating oil in its own tow trucks, it is permitted to buy this tax-free along with the oil it buys for resale and account for the tax itself on the oil used.

5. *Erroneous failure to collect tax by the vendor.* When a licensed firm is buying for its own use goods of a type not regularly handled for resale, the supplier may assume that the purchase is being made under license and thus fail to collect tax. Many firms make a strenuous effort to prevent their suppliers from doing this, even returning invoices to have the tax applied. But some errors of this type are inevitable.

As a consequence, all firms, regardless of the nature of their business, must check all purchase invoices to pick up tax which has not been collected on taxable purchases. The amount of tax is calculated and the sums cumulated and reported in the space provided for this purpose on the tax returns. Provincial sales tax auditors almost always make at least

a spot check of purchase invoices and frequently find that the firms owe more additional tax on their purchases than they do on their sales.

Special Problems Encountered in Application of the Tax

For the most part the application of the tax becomes a routine matter once the personnel of the firm become accustomed to the tax. In most cases there is no doubt as to whether the tax is applicable or not, or as to the correct amount of tax. However, there are certain special tasks and problems which arise in various circumstances:

1. *Obtaining license numbers.* A firm which makes any wholesale sales must insure that persons buying tax-free for purposes of resale are licensed vendors and place their license numbers on their purchase invoices. The first task is a major one only when the tax is first introduced, but the second is a continuing one. It is very difficult for a firm to get purchasers to place their numbers on all invoices. When an order comes in without a license number, the firm is not always sure whether the purchaser has forgotten to list his number or whether he wishes to have the tax applied on the purchase. The rule of insertion of license numbers is not always followed in practice, the phrase "for resale" often being written on the invoice as a substitute for the number. But this action leaves the vendor liable for assessment of tax.

2. *Determination of intended use.* A firm selling to other licensed firms is expected to determine whether the purchase is being made for exempt or taxable purposes (unless the commodity is of a type normally purchased by the firm for resale) in order to ascertain whether the purchaser can legally purchase tax-free under license number. This is a rule which vendors greatly dislike, since they are essentially placed in the position of having to question their customer's word. Many firms simply will not do so, and will sell tax-free if the customer quotes his license number, unless they believe that the firm is making an obvious and non-deliberate error. The provinces constantly try to obtain greater cooperation of the vendors on this issue, but without great success, and are usually reluctant to prosecute or assess penalties. Vendors as a whole feel that they should be permitted to sell tax-free whenever the purchaser quotes his license number and that the province should look to the customer in cases of suspected violation of the Act.

3. *Sales to farmers and fishermen.* In three provinces, vendors must obtain (or be sure that they have on file) exemption certificates for persons claiming exemption of purchases for farm or fishing use. As a rule these exemptions cause little trouble because the customers are well-known to the merchants. But some routine work is required, and some disputes arise with the customers over the applicability of the exemption to particular purchases, especially if the exemption is conditional upon use.

4. *Border-line cases with other exemptions.* Especially when a tax is new, merchants and their clerks will have a question about the tax status of certain items which stand on the borderline of exempt and taxable categories. The greatest difficulties have been encountered with drugs and certain farm products, and in all provinces considerable misapplication of tax still occurs on these items. Service establishments often have considerable difficulty in ensuring that the tax is correctly applied in all cases; probably the greatest difficulty is encountered by sheet metal firms and other businesses doing fabrication and installation work.

These problems can easily be exaggerated, however; for most firms problems of interpretation of exemptions are rarely encountered. Some of the difficulties which merchants encounter are the results of their own negligence, especially the failure to read the literature sent them and to enquire about questions which they may encounter.

5. *Problems on trade-ins and rentals of taxable property.* The rather complex rules on trade-in allowances and upon rental of taxable property are often sources of confusion and difficulty. For example, in some provinces the trade-in allowance is deductable only if the item traded in was taxed when originally sold, while in Quebec the allowance is deductable only if the new article and the traded-in item are of the same class of goods.

6. *Problems created by the Quebec municipal sales taxes.* In the province of Quebec, the municipal sales taxes create additional problems. Firms must determine the residence of the customer if the article sold is to be delivered, and the tax rates which are imposed in that jurisdiction. On the borders of metropolitan areas the tax status of a particular purchaser may depend upon the side of the street on which he lives. Customers often seek to take goods over-the-counter and yet not pay the municipal tax on the grounds that they are residents of rural areas.

Special Problems of Manufacturers

Some of the problems which confront retailers are also significant to manufacturers. But others are either unique with the manufacturers, or are particularly important to them.

1. *Check upon purchases.* On the whole, manufacturers make far more taxable purchases (relative to their sales volume) than do merchants, and thus must make particular effort to insure that the tax is properly accounted for. Questions of interpretation sometimes arise, especially with respect to catalysts and to the scope of the machinery exemption in New Brunswick. The province has now worked out detailed lists of taxable and exempt equipment and machinery in various industries and has brought its exemption more closely in line with that of the Federal Government.

2. *Contract work.* Manufacturers must check the tax status of contract work very carefully. The exact nature of the contract may affect the tax liability materially, and, especially with out-of-province contractors, full tax may not have been collected.

3. *Transfer of property to subsidiary companies, and transfer of used equipment into the province.* The provinces have complicated rules relating to the transfer of taxable goods among subsidiaries; in many cases the transactions are taxable. Likewise a firm can easily overlook the tax that is likely to be due when used equipment is brought into the province. Closely related is the question of tax on the sale of existing property. Tax status often hinges upon whether the property is interpreted to be real or tangible property.

4. *Determination of ratio of sales made outside the province to total sales in Quebec.* Manufacturers operating in the province of Quebec must determine the ratio of the amount of sales made outside of Quebec to their total sales since this ratio determines the proportion of their purchases of taxable goods which is exempt. This calculation must be made annually. Apart from the mere mechanics of the task, certain problems are encountered with respect to the exact interpretation of the meaning of the term "sales made outside the province". The treatment of F.O.B. sales and transfers to subsidiary corporations before sale to outside purchasers has been particularly troublesome in the past, although both of these types of transactions are now generally interpreted to be "outside sales".

5. *Collection and recording of tax on those sales which are made at retail and obtaining license numbers on sales for resale.* Almost all manufacturers will have some taxable sales, or will produce taxable goods for use within the firm. A system must be established for applying tax to these transactions. On goods produced for use by the firm, there are often questions about the establishment of the value figure to which the tax is to be applied.

The Effects of the Taxes Upon the Vendors

The provincial sales taxes exercise certain effects upon business policy, upon costs, upon customer relations, and upon sales.

A. Effects Upon Business Policy

For the average retailer, the tax has very little effect upon business policy, beyond the establishment of a routine for collection of the tax. No price adjustments are necessary, since the tax is collected as a separate item in the bill, and thus usual price lines are not changed. However, in certain cases the tax will make it desirable for retailers to alter certain policies, and will cause manufacturers and service establishments to make certain readjustments in business operations. These cannot be explored in detail, but major effects are noted briefly:

1. *Store location.* City sales taxes, such as those used in Quebec, may affect the selection of locations for new stores. The taxes will increase the relative advantages of locating new suburban stores just outside the city limits, for example.

2. *Plant location.* City sales taxes encourage manufacturing plants to locate outside of the city limits, and the provincial taxes alter somewhat the relative advantages of locating in various provinces. There are, however, other taxes to take into consideration, and a firm can never have complete assurance that a particular province not now using a sales tax will not introduce one in the future.

3. *Charges for services.* The provisions relating to taxation of charges for services rendered in conjunction with the sale of goods may make it desirable for firms to change their policies with respect to these charges. In general, the tax regulations increase the advantages of making separate charges for installation, financing, delivery, etc., rather than including charges for these services in the prices of the products. In some cases it may be advantageous to have articles shipped directly from factory to customer, to lessen the freight element included in the tax base. In other types of work, segregation of charges for materials and labour may become advantageous, although many firms (undertakers being a classic example) are reluctant to follow this policy regardless of tax savings.

4. *Choice of types and coverage of contracts.* The nature of the contract and the coverage of particular contracts may affect tax liability. Since labour on real property contracts can be excluded from the tax and that on personal property contracts cannot, it becomes advantageous to have as much contract work as possible qualify as being real property work. The tax regulations also increase the relative advantages of the fixed-price as compared to the cost-plus contract, since usually the contractor's markup on materials will be included in the tax base with the latter but not with the former. On the other hand, in Quebec, the manufacturer is required to pay tax on only a portion of the charge for a cost-plus contract, because he can apply his ratio of sales-outside-the-province-to-total-sales on such contracts but not on fixed-price contracts (on which he does not pay the tax directly).

5. *Fabrication work.* The tax may increase the advantages to the firms of doing certain types of fabrication work, such as machine shop work, themselves, rather than having it done by other firms. In most provinces, if a firm does work of this type for itself, it pays tax only on the materials which go into the work, and not on the cost of labour involved, while if it has the work done by other firms, it pays tax on the entire charge, including labour and materials costs. For example, in most provinces, if a firm creosotes its own timbers, it pays tax on only the lumber and the creosote. But if it buys creosoted timbers, it pays tax on the entire charge, which includes the cost of labour used in creosoting.

6. *Miscellaneous effects.* The tax may produce other minor readjustments in policies. For example, if trade-in allowances are not deductable, firms are given an incentive to lower the list price on the article and give only a nominal trade-in allowance. The failure to allow deduction of bad debts encourages firms to insist on the payment of the tax by the customer along with the first instalment payment.

B. Effects Upon Costs

The sales taxes affect the costs of business firms in several ways:

1. *Overhead.* Supplies, equipment, building materials, and many other items purchased for business use are taxable, and thus the overhead of retail stores is increased, as well as the expenses of other types of business.

2. *Increase in time necessary to complete sales transactions.* Retailers find that the tax collection slows down the completion of sales. Cash registers must be rung more than once, and additional time is required to make change and write invoices.

3. *Supplies for operation of the tax.* The retailer may find it necessary to purchase additional invoice books, tax tickets, improved cash registers, etc., to facilitate compliance with the tax.

4. *Calculation of tax due.* The time necessary to calculate the amount of tax due at the end of each month may result in longer hours of work for the proprietor, or the hiring of additional bookkeeping help.

5. *Delivery costs.* The Quebec municipal taxes greatly increase the demand for delivery of goods, since out-of-town customers will avoid local taxes if they have the goods delivered, but must pay them if they take the goods over-the-counter. This additional delivery expense is a significant element in the expenses of many stores in the province, and the source of one of the most bitter types of complaint against the Quebec sales tax system.

Minor cost and nuisance result from the need for keeping invoices and other records until audit, and from the time spent with sales tax auditors.

These expenses can be exaggerated, since in many firms the time of clerks and bookkeepers is not fully utilized, and the tax therefore does not necessitate the hiring of additional personnel. But this situation is by no means always encountered, especially in the larger stores.

In part the additional expenses are offset by the allowance which the vendor receives for collecting the tax. But this sum is often completely inadequate, especially if the firm has a large number of small sales, or if most of the sales are exempt.

C. Relations With Customers

A sales tax is in general a disturbing influence in store-customer relationships. Especially when a tax is new, customers resent having the sales tax added to the list price, and are inclined to blame the vendor for the tax. Even when the tax has been in operation for some years, a few customers will protest, especially on larger purchases, and may attempt to induce the vendor to absorb the tax. Tourists sometimes complain, and argue that they should not have to pay the tax. In Quebec the arbitrary lines drawn with respect to the definition of children's clothing (which is exempt) lead to many arguments. The common rule with respect to meals that the size of the check, rather than the price of each person's meal, determines the tax status is resented. The failure to permit deduction of trade-in allowances in several provinces is a source of strenuous protests on the part of customers. Whenever tax regulations change, the vendor has the task of explaining the change to the customers.

D. Loss of Business

A sales tax inevitably causes some loss of sales by business firms. There are several sources of the loss:

1. *Higher prices.* The higher prices which result from the tax cause some marginal buyers, especially in the lower income groups, to drop out of the market. From an overall standpoint the effect of the tax in curtailing spending should be offset by the expenditure of the tax revenues. However, firms selling goods which have relatively elastic demands in response to price changes, and ones which benefit relatively little from the effects of the provincial expenditures will experience some net loss.

2. *Loss to out-of-province vendors.* Some loss of business to sellers in other provinces is inevitable. The greatest difficulties are encountered in areas located close to provincial borders; in some cases merchants in these areas are compelled to reduce prices and thus essentially absorb the tax. The three areas in which the problem is most acute include Sackville, N.B., Hull, P.Q., and Lloydminster, Alta.-Sask. The provincial border runs down the center of the main street of Lloydminster, and collection of the tax is almost impossible.

In the first years of the taxes, the merchants greatly feared that extensive loss of sales to mail order houses would occur. Actually this has not occurred, in part because the large mail-order houses cooperate in insuring that the tax is paid on purchases made by persons living in the provinces which have sales taxes. There is some increased buying, however, from out-of-province firms not generally engaged in the mail order trade.

3. *Tourist business.* There is probably some loss of tourist business since the tax lessens the relative advantage to Americans of buying Canadian goods, and encourages them to buy in places such as Toronto in which there is no sales tax.

4. *Loss to small stores.* Especially in Quebec, and to a limited extent in New Brunswick, merchants feel that they are losing business to small stores which manage to evade taxes. This attitude was not encountered in the other provinces.

Relations Between Vendors and the Provincial Taxing Authorities

On the whole, the working relations between the business firms and the provincial authorities are good. Printed information is readily available (except in Quebec) and easily understood. There is widespread feeling in Quebec that the province should issue printed regulations and instructions comparable to those provided in other provinces, and many firms in Quebec feel that they are deliberately left in the dark with respect to the tax. This attitude is especially prevalent on the part of manufacturers.

The vendors have little difficulty in getting rulings. In Quebec there is some belief that small firms, especially in more remote areas, do not always get readily understood answers. Manufacturers in Quebec sometimes have difficulty in getting formal rulings on more complicated questions, and trips to Quebec City are often necessary. In British Columbia and Newfoundland there is some desire to have greater formality in the issuance of rulings.

Major complaints against auditing are encountered in Quebec, primarily because of the very long period which often elapses between audits. Records must be kept for a number of years, and auditors will go back over the entire period, perhaps as much as ten years, and may assess large amounts of tax because of errors in interpretation of the Act. While there are fewer complaints in other provinces, firms typically would prefer more frequent auditing, so that they will not continue to make errors arising out of misinterpretation.

General Attitudes of the Vendors Towards the Tax

Certain general observations can be made about the attitudes of the vendors towards the tax, on the basis of the interviews made by the author. It must be recognized, however, that there are many individual exceptions to the points of view noted, but there does appear to be substantial consensus of opinion on most of the issues.

1. Retailers generally regard the tax as a nuisance and as a source of additional cost to them, but not as a cause of serious injury, as many feared when the taxes were introduced. Retailers fought the establishment of the taxes, and would be happy to be rid of them, but they have

co-operated with the tax administrators in their operation, and have typically come to regard them as inevitable.

2. A small minority of retailers still express strong hostility to the tax, arguing that the provinces have no right to make them "tax collectors".

3. The problems of the vendors vary widely among various types of business. Establishments rendering services as well as selling taxable goods have the greatest problems, while firms selling only taxable goods have the least difficulty.

4. Merchants in cities located close to the provincial borders are affected more severely by the tax than any others. When a city is divided by a provincial border, the problem becomes critical.

5. There is little general feeling that the tax causes a significant decline in sales. The early fears of loss of business to the mail order houses have largely dissipated.

6. Apparently a majority of merchants, and the merchants' organizations, prefer the present type of separately-quoted tax to the type which would be hidden in the prices of the commodities. However, a substantial minority of firms, primarily ones selling goods of high unit value, have strong preference for a hidden form of sales tax.

7. The general attitude of the vendors towards the provincial tax authorities is surprisingly good, in light of the general dislike of the tax. The view is almost universally expressed that the tax administrators are co-operative and reasonable. Complaints are more widespread in Quebec than in the other provinces.

8. It is generally felt by vendors that the taxes are collected with a high degree of effectiveness, and that evasion, although occurring to a limited extent, is not serious.

9. Minor features of the tax, such as the treatment of trade-in allowances, bad debts, and a few hair-line distinctions between exempt and taxable commodities, are responsible for the most frequent and vigorous complaints.

10. Manufacturers typically seek a somewhat broader exemption of producers' goods, comparable to that now provided by the Federal Government. There is particularly strong feeling that industrial consumables and machinery used in production should be exempt.

11. Vendors as a whole object to the provincial insistence that they must determine intended use by the purchaser, when tax status depends upon use to be made of the article.

12. In Quebec, both retailers and manufacturers regard the municipal sales taxes as the source of most of their sales tax difficulties and expenses.

Conclusion

Retail sales taxation has attained a role of major importance in the provincial tax structures, and is likely to gain in importance, rather than decline, in the future. The establishment of the taxes has made it necessary for business firms to develop procedures for collection and recording of tax and determination of total tax liability. The taxes are not sources of major difficulty for business firms if proper procedures are established, except in isolated instances, but they do give rise to certain problems and expenses. The municipal sales taxes in Quebec are sources of greater trouble than the provincial taxes; on the whole this tax is not a suitable one for municipal use. The provinces have done a creditable job of administering the taxes, and have effectively exploded the argument sometimes advanced by the Federal Government that retail sales taxes cannot be collected effectively.

Advertising Angles . . .

Points from some 1954 conference speeches, Association of Canadian Advertisers.

E. B. Reid, Department of Citizenship and Immigration—"Your new market of one million new buyers — they are Canada's one million post-war immigrants — about 330,000 have been British, 70,000 U.S. and 19,000 French — the remaining 600,000 are people whose language is different, 100,000 Germans, 105,000 Belgians, Italians and Swiss, 100,000 Dutch, 60,000 Poles, 40,000 Jewish and 30,000 Ukrainians.

From 1946 to 1953, immigrants brought with them to Canada a total of $415,000,000. The estimated figure for 1953 alone was $75,000,000.

You now have about 128,000 immigrant households to be serviced — those have bought something like 90,000 ranges, 66,000 washing machines, 40,000 cars, 107,000 radios, spend on food alone over $6½ million a week."

Willard A. Pleuthner of New York—"Whenever you plan your research projects, include in your original planning a definite programme for the creative interpretation of the findings. Decide in advance what people will be assigned the interesting job of 'brainstorming' (group discussing) the objectives or problems discovered or proved by the research."

T. J. Emmert, Ford Motor Company of Canada, Ltd.—"Of more than 2,000 different North American makes of cars which have been offered on the market since the birth of the industry, only 20 survive today.

Today there is a motor vehicle in Canada for each 4.5 persons, with some 3,400,000 cars and trucks on the road.

Car dealers, and independent garages and filling stations accounted for about 25% of all retail business done in Canada last year. Their sales were well over $3,000,000,000 — far more than Canadians spent on food, far more than they spent on clothing and furniture and appliances rolled together."

Exports in a Buyer's Market . . .

In view of the changed conditions and fierce competition facing exporters, the Federation of British Industries (FBI) organized a week-end study conference of top-level businessmen, bankers, merchants, and various national organizations concerned with export or salesmanship. A 46-page summary of the results of the discussions of the five groups was published by the FBI, 21 Tothill Street, London, England.

Here are some points for Canadians:

EXPORT OPPORTUNITIES

The best interest of an exporter lies in his long-term connections; most successful exporting concerns will, in fact, have decided where their long-term interests lie and will devote their foremost efforts to cultivating these markets. These efforts ought not to be switched elsewhere on short-term considerations, no matter how cogent they appear. An opportunist policy is particularly dangerous if followed by exporters of capital and semi-capital goods who have their own established selling organizations in overseas territories. It is of the utmost importance for them not only to maintain the continuity of these organizations, which, once substantially reduced, cannot be built up quickly again, but also to preserve the confidence and goodwill of their customers. It is only in special cases, where consumer goods may suddenly be shut out of markets, that opportunist policies are not only possible but frequently right and necessary.

Other things being equal, it is most important that industry's export net should be spread as widely as possible. There is a natural tendency to neglect comparatively small markets, but in the aggregate these may well absorb a volume of exports greater than that of any single substantial market, and it seems a provident policy for exporters to base themselves on as wide a spread of markets as possible. The more outlets which an industry has built up for its products, the less dependent it will be in lean times on any one sector.

THE NOVICE EXPORTER

Because of the importance to the export drive of many comparatively small companies entering the field which, up to date, have had no export business, it is worth considering the first steps that the novice exporter should take. Such companies should, initially, concentrate their attention on a single market, as near in its conditions as possible to that of Canada; and they should approach it through some well-established merchant house having connections in the market. Such a merchant house is well equipped to take the load of additional work required for export off the manufacturer's shoulders and to guide him in establishing himself in new territory. It may be that, when once an export business has been built up, the merchant would no longer be the appropriate channel; but certainly in the initial stages merchant houses have much to offer which any business new to the export field cannot afford to neglect.

ORGANIZING FOR EXPORT

This group recommended the need for quoting in the weights, measures, and language of the importing country, quoting firm "delivered overseas" prices, not the price "ex works", and giving the exporter's representative in the foreign market the greatest possible degree of authority to quote the price at which an order would be accepted. It emphasized the fundamental importance of the contract date for delivery.

THE EXPORT SALES FORCE

This group submitted recommendations on recruitment, training, languages, market imports, after-sales service, etc. Wives will be interested to know "Whilst there are a number of obvious difficulties and disadvantages in wives accompanying their husbands on business trips abroad, for more senior people there often is a very great advantage in the wife accompanying her husband; and in those cases the company should pay."

EXPORT PROMOTION

This group, under the chairmanship of Mr. Lawrence Hayworth, MC, known in Canada as Director of Unilever and Chairman of the Executive Committee on the Dollar Exports Council, considered overseas exhibitions and fairs, trade missions, catalogues, etc. as a means of selling, and saw great use in "long-term investment" methods of promotion such as the provision of text books and equipment for foreign universities, industrial scholarships for overseas graduates, and the overseas distribution of trade and technical journals.

—A.G.H.

Cost Reduction Through Material Control

Alan Fogg

Today almost every manufacturing company in Canada is trying to cut costs. The return of tougher trading conditions means that companies must reduce the cost of their products. If they do not, then they face the danger of being eliminated. If they succeed, then our forward strides to higher productivity and a higher standard of living will continue.

For this reason, the executive in charge of production may be described as the man in search of efficiency and economy, leading the management team in cost reduction. In countless companies this project will be started, but in the majority there will be only partial success. There may be great achievements, but the full potential cost reduction will not be achieved. In this article Mr. Fogg discusses one of the reasons for this failure.

It is commonly regarded as self-evident that the labour costs of production are the most amenable to reduction. This is frequently a fallacy. It is truer to say that excessive labour costs are the most easily spotted and are therefore the most often investigated.

The production executive in 1954 has a bewildering array of techniques to consider in his search for higher productivity and lower labour costs:

Time study is an advancing technique, and measured standards of production are now becoming widespread.

Lost time is being eliminated in many plants by greater skill in planning, by the intelligent application of production control, and by the careful analysis of cost excesses.

Improved machine tools today produce at up to 50% greater rates than prewar machines. Significant cost improvements are being made by the introduction of new tools, multiple and combination tools, and so forth.

Materials handling costs can often be reduced to a fraction of their former level, because it is in this field that the most striking recent advances have been made, with the mechanization of handling, the use of bulk-handling, and above all, the elimination of handling.

Office efficiency has come under the spotlight also, and progress is general. The different methods of mechanized or semi-mechanized clerical procedures are now well-known and have been proved to be more accurate and often cheaper than the methods which they replace.

Output incentives can lead to outstanding improvements, particularly if they are coupled with work-measurement.

A Broader View

Often members of management have carefully studied the details of labour costs, and have prescribed some of the above remedies. But why not leave this detailed approach for a few minutes, and look at a simplified statement of costs?

Reduced to simple terms, the statement of the cost of articles may show the company to be one of those in which labour costs are less than material costs, such as:

Labour	15%
Overheads, selling, and distribution	30%
Material	45%
Profit	10%

A reduction of 10% in labour cost is very difficult to achieve, but, in such a cost structure, will yield a 15% in profit (if the turnover remains the same, and if the selling price is not reduced). However, a 3-1/3% material saving, which is probably easier to achieve, will give the same increase in profit.

Material utilization can be defined as

$$\frac{\textit{Number of units of output} \times \textit{Specified material content per unit}}{\textit{Total purchases of material}}$$

In how many cases can the chief production executive answer the question "What is our material utilization?" "Is it 98%, or 99%, or even 100%?" In some plants it is less than 50%, and a material utilization of only 70 - 80% is quite common. Such low efficiencies have been accepted for material, although nobody would accept them for labour or for machines.

But whatever the material utilization percentage, a small improvement will generally yield a greater true cost reduction than will bigger improvements in labour cost, and even if the company is one where the material cost is less than the labour cost, an improvement in material utilization will be well worth while.

An Indictment

This is a charge. In the search for reduced labour costs, too many businesses have altogether forgotten material costs. It is an omission which must be remedied.

Why has this happened? Obviously there are many factors involved, but without doubt one of the main ones has been the activities of the unions: during the last generation the relentless pressure from organized labour for higher and higher wages has forced companies into the search for higher productivity. The results have been magnificent: although wages have been increased many times, labour cost per unit is often less than ten or twenty years ago. The seal of recognition of this relation between the union and the search for higher productivity lies in the recent contracts in which wage increases are linked to higher productivity.

The increases in wage rates have been unavoidably accompanied by roughly similar increases in the salaries of office staff. This in turn has led to an intensive search for greater efficiency and higher productivity in the offices.

But the trend of manufacturing processes is now to place a greater and greater premium on material cost. There are reports and rumours of automatic factories in which there is practically no labour cost, and vastly increased mechanization is a present fact. Such trends leave material cost as the item most likely to vary from one plant to another and the factor which a company's competitors can most effectively exploit.

Not only has the reduction of material cost been neglected; in some cases the reduced labour cost has only been achieved at the expense of increased scrap, with a resultant overall cost increase. In one company an output incentive was applied to the operation of removing the sub-standard ends from lengths of an alloy steel product: the output incentive reduced labour cost, but there was a far greater loss of material due to the excessive zeal in cutting away more of the ends than was strictly necessary. In another company making tapped and threaded products, the effect of the output incentive was to increase tool usage by an amount greater than the labour saving from the faster output.

What is the correct approach to reducing material costs? There are two phases to the programme, and these can best be illustrated by answering two questions: (1) Are we using the right materials? (2) Are we making the best use of the materials we buy?

The Use of Alternative Materials

At frequent intervals the company's engineers must review every material used in every product of the company and must ask the ques-

tion, "Can we find a suitable and cheaper substitute for this material?" The greatest impetus for the use of alternative materials was provided by the recent war, when normal supplies were often no longer available, or in short supply. In Germany, and to a lesser extent in Britain, this led to a quite incredible degree of substitution. But now that the original supplies are once more available, we find that the alternative material has in many cases been permanently accepted, and the original is not mourned. But we must not wait for war to provide the impetus for experiment. The same changes can be and must be initiated within the company's organization.

A further impetus has come from the rapid growth of the plastics industry, providing a still expanding group of new materials. In some cases, however, the alternative material is not a new product. Recently the engineers of an Ontario company realized that for part of their range of products they were using cold-rolled steel, whereas a completely satisfactory product could be made with the cheaper hot-rolled quality. This was a case of using the wrong one of two traditional materials.

However, every company has its own special products, and a general treatment of the subject is impossible. For the remainder of this article, therefore, I shall deal only with material utilization — the better use of existing materials, which is a field in which some conclusions can be drawn for general application.

Better Use of Existing Materials

There are three main reasons for low material utilization.

The first and most obvious is the material which is wasted by removal during the process of manufacture: it may be off-cuts, swarf, trimmings, etc.

The second is the material which is wholly or partly processed into product, but which is subsequently wasted. Typically this is referred to as scrap, rejects, etc.

The third and most subtle source of low material utilization is material which is included in the final product and as such is sent to the customer, but which is neither a specified nor a necessary part of it. The most obvious example is when a product is sold by a nominal weight, and in practice an overweight is sold: although underweight attracts more attention publicly, overweight is surprisingly common. A quarter ounce over on a pound of sugar or such a product is almost a 2% loss. Less obvious, however, is the paint film which is 20% thicker than necessary, or the lumber 1/16th of an inch thicker than called for. If castings are overweight there may be not only the loss of the value of the extra metal, but also the additional cost of machining it away.

The non-utilized material may be disposed of as scrap, or included unnecessarily in the product; in each case it is a *loss.* A material cost reduction programme is one of reducing the losses; it falls into three parts:

(1) Getting at the facts: measurement of loss factors
(2) Establishment of control
(3) Systematic reduction of the loss factors

Getting at the Facts

Analysis of the facts about material utilization is often a long and tedious process, but well worthwhile. It may be simple or complicated, depending largely on the type of plant, and on the exact nature of the processes of production. It is normally found that the number of different factors causing losses is surprisingly large: it is rarely as few as 5: it is often 20: it may be 100 or more. It is not enough to know that x% of material is lost in an operation: detailed examination must establish how the x% is lost and exactly what factors affect the percentage: only by thorough knowledge of the nature and extent of every loss factor is it possible to plan for improvements.

Many of the factors are variable with one or more of the conditions of the process or the product: every one of these variables must be evaluated and defined. Once the factors have been identified, they should be measured and standards set for each of them. It is then possible to forecast the standard losses for any set of operating conditions.

Establishment of Control

As with all other elements of cost, the fundamental basis of control is the provision of properly kept statistics, issued at frequent and regular intervals. Such statements are general for the analysis of labour and overhead costs, showing expenditure in as many headings as may be necessary. Such statements need no apology: they are the tools by which the executives ensure that the policies of the company are in fact implemented. The statements show variances from standard or budgeted expenditure and thus show where management action is required.

Too often the control statements give considerable detail of many expenditures, but show the cost of materials as *one item only.* To obtain full material control the cost of materials must be analyzed like labour costs: the control statement must show the standard losses under the requisite number of headings and also the variances of the actual losses from the standard losses.

The establishment of the control statements, therefore, requires two previous actions: first the measurement of the standards, and secondly the recording of the actual losses. This latter requirement will generally necessitate the establishment of procedures for recording all losses as

they occur, in the headings necessary for control purposes. Such recording is exactly analogous to the recording of the time of wages expended on a particular item or process.

The number of variances which are used for control will vary with the type of plant, with the importance of the different variances, and above all with the level for which the control statement is designed. In a large plant it may be necessary to record for each department all variances arising within that department, in detail, so that the superintendent can plan improvements. But at the highest level in the same plant, the control statement would only summarize the totals of the variances for each department. In this respect, also, the treatment of material costs is exactly analogous to the treatment of labour costs.

In other plants, the best basis for control may not be by departments, but by products, or by processes, or by raw materials. But whatever basis is used, full effectiveness depends on the existence of measured standards of material losses.

Reduction of Material Losses

After the various loss factors have been identified and measured, the reduction of them calls for a systematic and thorough programme. Some factors may be remedied easily, whereas others are intractable: but it is essential to ensure that the cost of remedying the factor is not greater than the value of the material saved. There is no common unity in the problems which must be overcome, but a few examples of improved material utilization will illustrate some of the types of remedy. The loss factors frequently fall into a few main groups, including the following:

(1) Factors arising from the design or operation of a machine or process. Such factors, when identified, can normally be eliminated by the company's engineers.

In one case, a machine was used to fix strips of gummed paper to reinforce the seams of cardboard containers. Because the register between the glueing line and the container seam was bad, wide strips were used which gave an adequate joint even when the register was poor. After modification of the machine, the improved register allowed the use of narrower strips of gummed paper, and the savings were equivalent to many thousand dollars per year.

In a knitting mill garments were made from cashmere wool, and as each garment was "knitted out" of the machine a substantial waste arose. The process was altered so that when the full garment had been knitted, common wool was fed in for the "knitting out". The common wool was removed in a subsequent operation. Here the percentage material utilization was not improved, since the amount of waste knit

remained the same, but the change ensured that a cheap material was wasted instead of an expensive one. The cost of stopping the mill and feeding the common wool was only a small fraction of the value of the material saved.

(2) Factors which can be improved by the application of better production control. The reduction or elimination of these factors will call for a careful and thorough operational study, and permanent vigilance.

A recent example arose through including in a steel product more material than was required. A control statement was established and showed that in one week the loss could amount to more than $500. Ultimately this loss will be avoided by closer production control.

In the same plant there was a substantial loss every time the machines were loaded with raw material. The purchasing specification was amended so that material was purchased in the largest units which the machines could accomodate, and hence the frequency of reloading and the loss from this source will be reduced by between 30 and 50%, with a saving of between 1 and 2% of the total material usage.

A further series of examples where closer control of production can reduce losses relates to the physical conditions of various processes. Stricter temperature control can reduce losses through poor annealing. Control of metal cleaning will reduce the rejects in operations such as painting or enamelling. Attention to sand and cores will lead to lower casting rejects.

(3) The third main group of loss factors comprises scrap which is within the control of the operator himself. Very often this is the largest single factor in low material utilization, and may even exceed the sum of all the other factors. I shall therefore deal with it in greater detail.

Such losses are tackled in a similar way to the problem of raising the operator's productivity. First the design of the workplace and the tools must be scrutinized and where necessary improved: any additional equipment which is needed must be provided. Secondly the operator must be thoroughly and systematically trained in the correct way of working. Finally if measurements show that a further improvement is possible through effort on the operator's part, then he must be offered an incentive, in the same way as if his output were low rather than his material utilization.

A financial incentive to improve material utilization is a proven and valuable tool. The following cases illustrate the wide variety of problems to which it has been applied:

The cutting of shoe and glove blanks from hides; here the raw material is of variable shape and size (though all roughly similar), and frequently contains irregular blemishes: the yield of good, useful cut blanks is entirely under the control of the operator. Under incentive the material utilization in cutting out was substantially improved. (Note that the problem is different with the cutting out of textiles, where the material is of standard size and the cutting can be planned in advance.)

The minimum consumption of fuel has been obtained by linking the incentive payment of the stationary engineer to the CO_2 recorded in the flue gases.

The minimum use of oxygen and acetylene in a large semi-automatic welding shop was obtained by linking the incentive earnings of the blowpipe setter and maintenance man to the gas usage per unit of welding. In this case the savings in the cost of the two gases was equal to the wages of about ten operators.

The operators of some tube mills were induced by incentive to reduce by nearly half the scrap which they themselves caused. The savings were several hundred dollars per week, whereas the cost of the incentive plan was only one-twentieth of this.

Among other cases are the improvement of material utilization in board mills, in the yields of gas from coking retorts, in reducing the off-cut scrap from steel sections, etc.

Scrap Incentive

Before introducing a scrap incentive plan, certain precautions should be observed. The incentive should be linked only to losses which are within the direct control of the operator: his effective cooperation cannot be gained if the incentive is subject to variations outside his control. To achieve this it is necessary for the standards to be measured accurately.

Good standards are also important to avoid serious anomalies. If the decision has been taken to substitute an incentive on material utilization for all or part of the incentive on output, then the operators will expect a similar level of earnings to those of a pieceworker. This means that the same care must be devoted to measuring the material utilization standards as is devoted to measuring the output standards. If the standards are tight they will not provide any basis for real improvement, and if they are loose, then excessively high earnings will result.

Above all the introduction of the incentive must be carefully planned, and the effect on output must be investigated. Just as earlier I wrote of the cases where increased output was obtained only at the expense of increased scrap, so it is necessary now to ensure that the

greater care over material utilization does not make labour utilization too low. The best balance must be struck between the labour and material utilizations.

The attitude of the unions towards such incentive plans will vary with how it is sold to them, and it is bound to depend also on the past history of company-union relations. In general a good reaction is obtained: many unions are opposed to output incentives for well-known reasons, but it is difficult to object to a plan which puts a premium on good and careful work.

Scope for Saving by Material Control

Earlier I referred to the scope for cost reduction by material control. What sources of savings are there?

First there is the direct saving in material cost. For any given output less material is purchased, and the saving is obvious.

Secondly there is the saving of labour and of variable overheads dus to operating the plant on a lower throughput. With the lower throughput less labour and fewer services are employed all along the line, since less work is done on material which would have been rejected, or otherwise lost.

The size of the savings varies from plant to plant, but in many departments it has been found that the material savings are themselves equal to many times the whole payroll of the department.

It must be stressed, too, that the maintenance of the controls is of paramount importance. It is only through this maintenance of the controls, and by taking the necessary action on the control data, that continuous savings are assured.

Carrying Out the Project

Before settling the details of the programme, it must be decided whether to employ outside help. The cost of a consultant may appear high, but a reputable firm will not undertake an assignment in which there will not be a many-fold recovery of the fees. The main value of the consultant is that he introduces the experience of a wider field into the local management.

Few companies are organized to carry out a programme of cost reduction through improved material utilization, without preparation by adding to or giving special training to the existing staff. When deploying the staff, the three phases of the programme must be kept in mind:

(1) Getting at the facts: measurement of loss factors
(2) Establishment of control
(3) Systematic reduction of the loss factors

The difficulty of getting at the facts depends on the type of work. Generally the methods engineers, time-study, or production engineers can undertake this part of the programme, particularly if they are men of high calibre in an active organization. They may require some brief training in the special techniques involved.

The establishment of the control statements should follow normal statistical channels, since there are no differences in principle from other cost statements. Once the overall facts have been recorded by the production staff, and the standards for the loss factors have been measured by the production engineers, then the establishment of control is straightforward for the existing statistical or costing staff.

Reduction of the loss factors will generally present a whole variety of problems. Many will require the modification of machines or tools, and normally the engineering department can design and install the remedy. Those factors which call for better production control should be tackled by the existing staff organization. If, however, one or more lies in the control of the operators, and for which the preferred remedy is the application of a suitable incentive, then it is wise to obtain help from someone experienced in this work.

A Worthwhile Project

The direct cash savings from such a programme will usually provide a generous return on the investment in it. But these savings are not the only ones: there are other dividends which should not be ignored.

The successful elimination of waste can lead to a feeling of good-housekeeping, which will in turn improve the sense of purpose and feeling of urgency of the whole plant. Not least, by providing an example of good management, it can lead to significant improvements in labour relations and thereby in production.

There is never an end to the scope for using alternative materials, but once the selected materials are in the plant, then there is a final limit to the material utilization — 100%. That must be the final target for which the production engineers must strive. But the incentive to start and maintain the programme lies with the top executive; he has probably already tackled labour costs, selling costs, overhead and so on, and he must now face the remaining major task needed to reduce his costs — material control.

Canada's Biggest Employer

J. Y. Harcourt

In January, 1954, a civil service panel was invited to the University of Western Ontario by the Business Council. Its members, Miss Dorothy Cadwell and Mesrs. Oliver Lefebre, Leslie Brown, J. Y. Harcourt, Ross Anderson and Ken Scobie, threw such new light on the various careers offered by Canada's largest employer that the Civil Service Commission was asked to write it all down. Here, in an article written and edited by many, are set out some of the opportunities of work that will affect the lives and fortunes of all Canadians and the future of Canada herself and her relations with the world.

CIVIL SERVANT! To many Canadians these two words conjure up up visions of rows of typists and streams of postmen. Too few are aware of the hundreds of varieties of positions open to university graduates of practically every mental discipline and profession. Because of this lack of information many first-rate graduates miss highly satisfying careers of worthwhile Public Service.

The Federal Government is Canada's largest employer — both in numbers of individuals and in numbers of occupations. The Civil Service Commission by authority of the Civil Service Act is its central personnel agency and all recruitment for and promotion in the classified Civil Service is the responsibility of the Commission. While the Civil Service Act and Regulations govern the details of employment, the activities of the Commission are inspired by the two important principles which together constitute the merit system.

The cardinal rule of any Public Service under a merit system is that all citizens shall have an equal opportunity to apply for positions to serve the state. This is the reason for displaying posters advertising vacancies in post offices, libraries, schools, and universities throughout the country, and for the lengthy period provided for accepting and processing applications.

That the best shall serve the State is the second principle. This follows logically from the first, and like the first it creates problems unique to the Public Service. Private industry can interview and hire

whom it pleases and must account only to management. The Public Service must give every applicant equal consideration and then choose the best qualified. Hence the reason for examinations. No one can influence appointments in any way, but the public and the representatives of the people have a right to know that the letter and spirit of the Civil Service Act are followed at all times. Every appointment must be capable of justification according to these two principles.

Candidates may be rated by written examination or oral examination or a combination of both. For certain specialized positions they are rated on their university record, references, and other documentary evidence. Where an oral examination is used, the Oral Examining Board usually consists of a Civil Service Commission representative as Chairman, a member from the employing Department, and an advisor who comes from some other Department, or, from outside the Public Service. An oral examination may be as short as ten minutes or as long as one and one-half hours, which is common when selecting Foreign Service Officers and Junior Administrative Officers. One of the reasons competitions take so long to complete is the need to examine large numbers of candidates in many different centres. In the recent Foreign Service Officer competition, for example, there were applicants from places as far away as Tokyo in Japan and Kahama in Tanganyika, East Africa. Candidates who receive 60% on each part of an examination and an average of 70% on all factors are regarded as qualified, and are placed on an eligible list for appointment in the particular class. As vacancies occur positions are offered to the people on the list in their order of merit.

There is a third principle of selection for the Public Service which has been recognized by the Canadian Parliament — the principle of veteran's preference for those who have served in the Armed Forces and who have been exposed to greater risk by service overseas in a theatre of war. Any veteran who meets the statutory requirement and who obtains a qualifying mark on the examination is listed ahead of those not entitled to the preference.

In any recruiting effort today the so-called "benefits" are as important as salary and job description. The Civil Service has much to offer. There is an excellent superannuation system which provides not only for the retirement of the employee, but allows benefits for widows and dependent children. Vacation and sick leaves are generous, and there is a voluntary hospital and medical plan. The five-day week is now the rule wherever it is the prevailing practice in industry. Promotion is by merit through promotion competitions restricted to employees.

Civil Service salaries are comparable with those of industry, particularly in the lower and middle groups. Many senior civil servants would draw higher salaries for equivalent responsibilities in industry. However, this leads into an important benefit of Civil Service employment — satisfying service.

There is general agreement today that people are happiest and do their best work when they can obtain psychological satisfaction from its performance. A few years ago, Dr. Hugh L. Keenleyside, then Deputy Minister of Mines and Resources, spoke in Vancouver about the Public Service as a career in Canada. Among the many real satisfactions of life in the Service he listed comparative financial security and opportunities for a variety of experience. Then he went on to say:

> "But perhaps the most important attraction of the Service is psychological and arises from the fact that its members are engaged in the task of work for their country. They have the satisfaction of knowing that they are employed on work that, in great degree or small, will affect the lives and fortunes of all their countrymen, and directly or indirectly, the future of the State itself."

The Civil Service needs people with university training. In recent years there has been great competition among all employers for the best graduates, and the Public Service has attracted many. However, there is a strong feeling that many more could have been attracted had they been aware of the opportunities that exist.

Junior Administrative Officers

One of the most interesting opportunities is that of the Junior Administrative Officer or Administrative Trainee with a starting salary of $3210 a year. The object of having this class is to bring young graduates under twenty-seven years of age with leadership potential into the Service to be trained for advancement up the administrative ladder. During the short time that the plan has been operating, students from most branches of the liberal arts, science, and commerce have been appointed.

The selection process is thorough. All applicants must write a two-part examination. The first part is an objective test designed to demonstrate verbal aptitude and reasoning ability. The second part is an essay on one of ten suggested topics. This is to demonstrate the applicant's ability to discuss a problem intelligently, clearly, and logically. Each paper is given two independent markings and differences are resolved in committee.

All applicants who pass the written examination are called before Oral Examining Boards. The Commission normally invites faculty members and businessmen to serve on these Boards. Each interview lasts about one hour and the questioning is designed to bring out evidence of ability to discuss a question, group value, leadership, judgment, and sense of responsibility. Marks are also given for appearance, speech, and manner.

Candidates who are successful and accept appointment are assigned to Departments. During the first year, the candidate is rotated from branch to branch in the Department to obtain a good understanding of the organization and function of each. At the same time, the Civil Service Commission conducts a training course which all Junior Administrative Officers must attend.

At the end of his first year, each Junior Administrative Officer must appear before another Board. This Board has before it reports on the man's work in the Department, and on the results of his training course. The Board must determine the extent to which the candidate has reached the potential expected of him. It can recommend reclassification to a higher grade, or confirmation as a Junior Administrative Officer. Sometimes it recommends that he be transferred to another Department, or, where a candidate is obviously unsuited for administrative work, it can recommend his release. This general procedure is followed in most professional classes also.

The standards for qualification are kept high, and it is interesting to note that for several years there have been more requests from Departments than there were successful candidates. In 1953 about twenty-five were appointed. The majority of those appointed show a record of quicker than average promotion, and a few appointed in the first years after the second war have already risen to responsible administrative positions.

Foreign Service Officers

One of the best known competitions for positions in the Public Service, and one that even has an aura of glamour about it, is that for Foreign Service Officers. There are some who think that all they need have to be successful is a desire to travel abroad. These are not necessarily successful candidates.

Two Departments employ Foreign Service Officers — External Affairs and Trade and Commerce. The grades and salaries are the same in both Departments. Appointments are made at the Grade 1 starting salary of $3480 a year. When serving abroad, there are special allowances paid according to the country to which the officer is posted and the position he holds.

Applicants for the Foreign Service of either Department must be university graduates under thirty-one years of age and have had ten years' residence in Canada. The method of selection closely parallels that for Junior Administrative Officers. There are written and oral examinations. There is a paper designed to test the candidate's knowledge of Canadian and international affairs and also, for Trade and Commerce, the candidate's knowledge of the Canadian economy.

Honours degrees and post-graduate studies as well as a good knowledge of foreign languages all give extra marks to the candidate. The Department of External Affairs prefers those who have specialized in history, economics, political science, philosophy, law, or geography. The Department of Trade and Commerce prefers economics, commerce, international trade, and business or public administration. But an outstanding candidate in any field may be selected.

The Department of External Affairs tries to develop all-round officers who can perform any of its many functions. The Foreign Service Officer in External Affairs may do political or economic reporting and interpretation, consular duties, information duties, or serve on delegations to international conferences. His duties are always twofold — first, to interpret and represent Canada to the government of the country to which he is posted; and second, to report on and interpret that country to the Canadian Government.

A Foreign Service Officer in the Department of Trade and Commerce becomes a member of the Trade Commissioner Service. Basically, this Service is engaged in assisting Canadian exporters to find new business and to expand sales in established lines and in seeking new or better sources of supply for Canadian importers.

At regular intervals in both Departments, from 2½ to 3½ years, depending on the climate of the foreign post, each Foreign Service Officer is returned to Canada for home leave of up to three months. Transfers from one country to another are made according to the needs of the Service; usually younger Officers are transferred every third or fourth year.

Economists and Statisticians

Canada's rapidly expanded responsibilities since World War II have meant an ever-growing demand for persons with sound economic training and experience. To meet this demand, the number of professionally trained statisticians and economists in the Civil Service has increased in recent years.

The Bureau of Statistics of the Department of Trade and Commerce is the central statistical agency for the Federal Government and employs most of the statisticians. As well, certain Departments employ statisticians to interpret statistical information for their specific needs.

Economists conduct studies of the various economic and social activities of the country. They must investigate, study, and make recommendations on labour conditions, industrial developments, trade relapublished and are of service to private organizations and individuals as tions, social security, and other problems. Many of their studies are well as to the Government.

The minimum requirements for entrance to these classes is university graduation in economics, the social sciences, or related fields. Postgraduate training is useful and is required for some positions. Senior positions are normally filled by promotion. Salaries range to the top of Civil Service classes.

Personnel Work

To do its work the Civil Service Commission employs a number of university graduates as Personnel Selection Officers, Classification Officers, and Staff Officers.

While the Personnel Selection Branch of the Commission is responsible for selection, the Organization Branch is responsible for positions and salaries. The Organization and Classification Officers are selected, like the Personnel Selection Officers, from graduates in different professions. They must study the organization of Departments and recommend the establishment or abolition of positions as work loads shift. Also they must advise on the salaries to be paid for the work to be done. Only when they have done so can the Personnel Selection Branch recruit. One Division of the Organization Branch is devoted to Operation and Methods study. This division, through its recommendations to Deputy Ministers on better methods of performing work, has saved the taxpayer millions of dollars. Each Department of Government also has its own Personnel Division responsible for personnel work within the Department.

Psychologists and Social Workers

Social work in the Federal Government is concentrated for the most part in the Departments of Citizenship and Immigration (Indian Affairs Division), National Health and Welfare (Family Allowances and Old Age Pensions), and Veterans Affairs. Although the work is directed from Ottawa, most of the social workers are located in centres across Canada. The majority are university graduates with at least a

year of professional training in a School of Social Work. They maintain liaison with community health and welfare organizations and initiate and direct numerous social welfare and research programmes.

Since 1945 a number of fully-trained psychologists and others with some training in psychology have been employed in various departments of the Federal Civil Service. The largest single group of psychologists has been that employed by the Department of Veterans Affairs for clinical work connected with the rehabilitation of veterans. Others are employed in research, counselling, personnel, test construction, job analyses, and penal classification jobs.

The basic educational requirement for such jobs is university graduation with specialization in psychology, though in some cases, postgraduate work is required. For other related jobs practical experience is required in addition.

Legal Positions

Lawyers are employed in the Federal Civil Service as Advisory Counsel, Senior Advisory Counsel, Departmental Solicitor, Legal Adviser, Senior Legal Adviser, and Pension Advocate. Graduation in law is a requirement or an alternative requirement in a number of administrative positions and in certain other classes such as Research and Investigation Officers.

Advisory Counsel are recruited for the Law Branch of the Department of Justice only. An age limit of twenty-seven is preferred and the standard of selection is high, only candidates with superior academic records being considered for appointment. They render opinions on various questions of legal interpretation concerning Federal Government Departments and Agencies, draft legislation and regulations, and appear in court actions for or against Her Majesty in right of Canada. Questions requiring legal opinions are constantly arising in all Government Departments, and some Departments employ specialized Departmental Solicitors or, at the higher level, Legal Advisers. Pension Advocates are employed in the Department of Veterans Affairs only. It is their duty to counsel veterans and their dependents who are attempting to establish claims under the Pensions Act, and to prepare cases for presentation before the Canadian Pensions Commission and the Appeal Board.

Finance Officers

A class of employment that is of interest to the high honours graduate is Finance Officer in the Department of Finance. Normally those with honours or distinction in academic work are admitted to the examination which is similar in method to those for Junior Administrative Officers and Foreign Service Officers. The Finance Officer, Grade 1

starts with a salary of $3280 a year and, like the Foreign Service Officer, can receive steady promotion for good work up to the $6000 to $7000 class. Beyond this there are further grades with salaries up to $10,000. Finance Officers, like the Civil Service Commission Officers, acquire a broad knowledge of all government Departments, and many of them win promotion into senior administrative posts in other Departments.

Finance Officers are the Treasury Board watchdogs and should be the taxpayers' favourite civil servants. One of their big responsibilities is to examine departmental estimates. They must analyze problems in government financing, social security, domestic and foreign economic policy, Federal-Provincial financial relations, and expenditures in the Public Service.

Accountants and Auditors

Accountants and Auditors are needed to see that money is spent as voted and that funds are accounted for. These are employed in a number of Departments, but most are found with the Comptroller of the Treasury, the Department of National Revenue, and the Unemployment Insurance Commission.

Much of the work calls for an exact knowledge of intricate regulations which can only be gained from practice. For this reason these positions are usually filled by promotion of employees who entered the Government Service in a clerical grade. However, in many positions, specialized training and experience are required, and these are filled by competition open to those with experience and training in public accounting and auditing who have undertaken courses of study towards recognized accounting degrees. In addition a number of university graduates who have specialized in commerce, finance, or economics are appointed; they are expected to become specialists.

Engineers and Architects

There are over five thousand people with professional scientific training employed in agencies serviced by the Civil Service Commission. More than a fifth, something over three percent of the profession as a whole are engaged in engineering and architectural work. In some fields of specialization, such as civil engineering, over ten percent of the professional group in Canada are employed in the Federal Civil Service. Certainly if one includes such agencies as the National Research Council and the Defence Research Board along with the classified Civil Service, it would be difficult to discover an architectural or engineering job which is not available in the Service. Twenty-six of the fifty agencies serviced by the Civil Service Commission use engineers and architects.

The demands for young engineering graduates are almost continuous. For example, the Service could use about one-third of the 1954 graduating class in Civil Engineering. To help relieve this situa-

tion the Commission has arranged help for a few young employees wishing to complete studies in engineering and has also sponsored post-graduate training for some specialized work.

Architects are primarily concerned with either designing or arranging for design of Federal Government Buildings, supervising their construction, and occasionally investigating building materials and techniques. They are employed as designers or as technical advisers to the administrative heads of the Departments.

Physics and Mathematics

About six hundred and fifty mathematicians and physicists are employed in the classified service in positions somewhat more specialized than those for engineers and architects. A good many of the positions require post-graduate training in a particular field of physics or mathematics.

Most of the physicists in the Federal Civil Service are employed in the Meteorological Service. The work is largely concerned with forecasting of a general nature or in the provision of specialized briefing services for civil and military aviation personnel. Other specialized positions are also available. Mathematicians who are particularly interested in statistical analysis are employed in the Departments of Insurance and Labour as Actuarial Scientists on insurance studies. Mathematicians are also employed periodically in the Dominion Observatory on astrophysical work and in the precise survey agencies of the Department of Mines and Technical Surveys on problems having to do with map compilation.

Natural Scientists

The contribution of the natural scientist employed in the Public Service could possibly be best defined under the following headings:

(1) The developing of Canada's natural resources through research.
(2) The protection of the health and general well being of our citizens.
(3) The assurance that the Government, Canada's largest purchaser of raw materials and finished products, obtains dollar value for the materials bought.

Under these three definitions, his work is extremely varied. In fact over seventy percent of the so-called pure scientists on the pay roll of the Public Service are specialists in one or other of the many fields falling under these general sub-headings. It is not generally known that the Canadian Government employs more of these specialists than all industry in Canada combined and that their field of work is more varied and their research projects more extensive than those normally associated with the various manufacturing concerns in this country.

Women in the Civil Service

People sometimes ask whether the Federal Civil Service offers worthwhile career opportunities for the woman graduate. A look at the professional classes will show that it does. All the forms of employment described above are open to women, and women are occupying positions in virtually every one of these fields. During the past year women have been appointed as Junior Administrative Officers, and women are now holding the rank of Foreign Service Officer. They have firmly established themselves as economists, information officers, editors, and personnel workers. In addition to occupying administrative positions in those professions traditionally considered feminine fields, women have successfully invaded the so-called "male professions". Women lawyers ast as Advisory Counsel and Department Solicitors, and the Government has employed women architects and engineers. Women, too, have made an outstanding contribution in many of the scientific fields.

A number of women graduates have achieved excellent careers in classes where a university degree, while not a requirement, is a decided asset. Some have found their niche as secretaries to top executives. Others with secretarial training have taken advantage of the opportunities which the Civil Service provides for employment in Government offices abroad. Graduates without professional specialization have entered the Service through the clerical field and have risen to responsible and interesting positions at a high administrative level.

Conclusion

An article of this length can do no more than outline the opportunities for university graduates in nearly every field of study. However, it has shown that these opportunities are wide. It would take many articles on the individual fields to show that they are also deep and richly satisfying.

It is the necessary anonymity which makes it so difficult to wipe out the lack of knowledge about the Public Service which was mentioned at the beginning of this article. However, there is evidence that it is breaking down, and more and more university graduates are turning to the Civil Service for careers. For years now in Great Britain the honours graduate has thought first of the Civil Service as a career and second of other openings. The Canadian Civil Service Commission is working hard to bring about such a condition in this country in the belief that Canada needs the best and most capable minds in her Service. Each year we approach closer to that goal as more and more of the best graduates seek careers of Public Service. In Dr. Keenleyside's words, "Today, as never before, Canada requires the best that her sons and daughters can supply".

Book Reviews

THE FUTURE OF STERLING

by A. C. L. Day. Oxford University Press, Toronto, 1954. 228 pp. $2.00.

Practically all discussion of business prospects overseas involves answering the question whether sterling can ever again play its part as successfully as it did a century ago. There are many, particularly in banking circles, who still hope to put the clock back and, by making sterling convertible, achieve an international currency and thus equilibrium in world trading. The chief purpose of this book is to investigate how far this wishful thinking is justified.

Starting with a description of the high noon of sterling's power, Mr. Day — who is a lecturer in economics at the London School of Economics — traces its loss of power in the 1920's and the world wars and finds the justifications for the sterling area in chapters on its convenience, stability and discrimination. Sterling is already convertible to a large extent, but Mr. Day is among those who hold no illusions about the dangers of a rush to full convertibility. "If we cannot avoid a permanent or recurrent dollar problem, the present attempts to move towards a system of completely free convertibility and non-discrimination are ill-advised, in that they are trying to attain a position that cannot be permanently maintained, even if it could be reached for a time." Even if the dollar shortage is solved, this will not restore the millenium because it will shift the center of gravity of the world financial system to New York and thus further reduce the importance of sterling.

Those Canadian bankers and businessmen who have long hoped that sterling convertibility was only just around the corner will therefore find little to comfort them in this book. Indeed, Mr. Day sees little advantage either in making sterling convertible, or in re-establishing sterling as an international currency, as both would involve Britain in shouldering a large part of the burden of world payments disequilibrium. This book is as stimulating as a cold douche and consequently a good cure for much woolly thinking about the future of sterling.

—A. Gordon Huson
Associate Professor
U.W.O. School of Business Administration

CRUSADE: THE FIGHT FOR ECONOMIC DEMOCRACY

by Roy F. Bergengren. Exposition Press, New York. 379 pp.

Writing from his "Chimney corner in a little brick house on a Vermont Hillside", Roy F. Bergengren recounts in vivid detail the story of the building of the cooperative credit movement in America. For fifteen years the director of the Credit Union National Extension Bureau, financed by E. A. Filene, millionaire merchant of Boston, and as Managing Director of the self-sustaining Credit Union National Association for ten years, Mr. Bergengren was the key figure in the credit union movement during the last quarter century. In his crusade to "humanize the control of money" the author set out several practical objectives—get the laws, organize credit unions, form them into Leagues, and unite them into the National Association.

At the beginning of the crusade in 1921, fourteen states had credit union laws, and there were only 191 Credit Unions in the United States. When Mr. Bergengren retired in 1945 there were thousands of credit unions operating in every American state and Canadian province, with members running into the millions and assets to billions. *Crusade* is the story of the building of economic democracy by the people themselves. As the enabling legislation is passed in state after state the people organize their own cooperative banks and develop their own leaders to guide the movement successfully through a major depression and a world war.

As more credit unions are organized and as they band together in their State Leagues the tempo of the crusade increases. The dream of 1921 becomes a reality of 1934 when the Federal Credit Unions Act is passed in Washington and the Credit Union National Association is formed at Estes Park in Colorado. The crusade continues as Cuna forms its own insurance company (one and a half billion coverage today) and its own supply cooperative. New worlds are conquered as Canada, the Hawaiian Islands, Panama, and the West Indies join the National Association.

Mr. Bergengren has told his story well. As we travel with him from Nova Scotia to California and back, in conferences, meetings, and discussions, we come to grips with the problems of the people—we see men on the march—in the crusade for economic democracy.

—J. M. Best
Manager
Ontario Co-operative Credit Society

CREDITS AND COLLECTIONS IN CANADA (NEW AND REVISED)

Sponsored by The Canadian Credit Institute, Credit Grantor's Association of Canada, The Canadian Credit Men's Trust Association Limited, Associated Credit Builders of Canada. The Ryerson Press Company, Toronto, 1953. 418 pp. $5.50.

Over fifty persons, including economists, lawyers, insurance experts, credit specialists, accountants and others, have contributed chapters to this book. The popularity of the first edition published in 1947 encouraged the sponsors to expand and bring up to date the original treatise. This edition contains over twenty new chapters. In addition, many of the old ones have been revised.

Although the primary purpose was to publish a satisfactory textbook for the correspondence courses conducted by the University of Toronto for the Canadian Credit Institute, the creation of a handbook for credit and collection people was undoubtedly of considerable importance. The book has become the authority in this country on the general subjects of credits and collections. It has separate parts devoted to wholesale and retail credit and in addition has over twelve chapters dealing with important legislation with which credit men should be familiar.

Unfortunately there is no bibliography. Because of the many special subjects covered, usually in separate chapters of which there are fifty-nine, the discussion of some has been rather limited. In many cases the student will want to do more studying, such as, for instance, in the areas of banking and financial statement analysis. A bibliography would be of great assistance to those who for different reasons would like to biuld up their own library of authoritative reference materials.

—J. C. Taylor
Professor
U.W.O. School of Business Administration

PAST AND FUTURE

by William H. McNeil, University of Toronto Press, Toronto, 1954. 217 pp. $3.75.

Mr. Aneurin Bevin should not read this book, but those Canadians who do will probably agree with Arnold Toynbee that "this is a most valuable and illuminating work. It is clear, short, and pithy — great virtues in any book that is concerned with the future."

Professor McNeil's purpose is to challenge his readers into a re-examination of their views of the past and future of humanity. He begins with an analysis of world history, deals briefly with the present

social and political problems, and concludes with some observations on what should be done.

But does history repeat itself? If you answer "yes", then you can logically deduce that because in the past changes have not been made without the use of force, so in the future, war is inevitable. On this same assumption, historian McNeil of Chicago reaches the conclusion that war between U.S.S.R. and U.S.A. and her allies is virtually inevitable. "Either diplomats and governments will be able to adjust and cushion disputes between the two existing major power groups for a period of two or three generations until new and independent powers arise, or they will fail to do so. If they fail, we must expect World War III to burst upon the nations and peoples of the earth. If they succeed, humanity's agony will, I think, simply be prolonged, perhaps for as much as a century, until further wars lead to the elimination of all but one contender for the political and military leadership of the world." Professor McNeil also reaches the optimistic—or is it pessimistic?—viewpoint, that atomic war is not likely to end civilization.

This book is recommended because the long view—and his view stretches from the beginning to end of time—provides a useful correction to the confusion of daily events and may even help to guide choices and frame opinions on immediate issues. Future generations will look back on the 20th century with wonder, perhaps even with awe. They will feel that we lived in mighty and heroic times, in times when great issues hung in the balance and great deeds were demanded of men. To have such a role thrust upon us is a challenge which should enlarge our minds, should make us feel we walk as giants in the earth, with the strength and opportunity, nay, the necessity, to imprint on generations yet unborn the marks of our wisdom and kindliness or lack thereof.

This book is not recommended to Mr. Aneurin Bevin because he would find in this American analysis of present and future much to justify his view that there is a possibility of treading a preferable neutral road, which may yet save Europe. Professor McNeil seems so absorbed with his geopolitical views at times as to become blind to the existence of all countries other than the U.S.S.R. and the U.S. and her allies. Throughout his book there is no mention of the Commonwealth, no mention of neutrals, and it is possible that both Commonwealth and neutrals in past wars such as Sweden and Argentina might, with justification, query some of his conclusions, certainly his apparent belief in the inevitability of World War III and the conclusion that this will leave either the U.S.A. or the U.S.S.R. top nation of the world. Undoubtedly, Britain with her experience of winning wars and losing power in peace no longer holds any such illusions.

—A. Gordon Huson
Associate Professor
U.W.O. School of Business Administration

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